

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

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Tuesday October 29 1985

D 8523 B

Botha braces for
white backlash
at polls, Page 6

World news

Business summary

Pretoria clamps down on meetings

The South African authorities followed up the extension of the state of emergency to eight magisterial districts in the Cape Town area with a ban on the meetings of 113 organisations in the affected zone. Most of them are affiliated to the United Democratic Front (UDF), the anti-apartheid umbrella group, but also include the Moslem fundamentalist organisation Qibla, which has been active in the largely mixed race communities of the Western Cape.

Three policemen were killed in the Western Cape when their armoured car overturned while on patrol. Page 6

Uganda peace offer
Uganda's military Government has offered the rebel National Resistance Army equal representation on the ruling Military Council, a demand which has been a main sticking point in peace negotiations, the official Radio Uganda said.

Greens in coalition
West Germany's radical Greens opted to enter a regional coalition government in Hesse. The move gives the ecologist party a share of real political power for the first time. Page 3

Arafat in Amman
PLO leader Yasser Arafat arrived in Amman for crucial talks with King Hussein of Jordan on the future of their Middle East peace initiative. Page 6

Servicemen cleared
The £5m (\$7.1m) trial in London of seven British servicemen accused of passing vital secrets to Russian agents in Cyprus ended with the acquittal of all of them.

Israel expels four
Israeli authorities ordered the expulsion of four more Palestinians from the occupied West Bank and Gaza Strip for alleged guerrilla activities.

President again
Veteran Ivory Coast leader Felix Houphouët-Boigny polled his customary 99 per cent of the vote in presidential elections to win his sixth five-year term. He was the only candidate in the one-party state.

Argentine bomb
A bomb damaged a clothes store and gymnasium in a wealthy district of central Buenos Aires shortly after a court had upheld President Raul Alfonsín's right to detain suspected conspirators. News Analysis, Page 4

HK imprisons three
Three Hong Kong men were sentenced in Hong Kong to 12 years in jail for trying to kidnap millionaire newspaper publisher Sally Aw Sian.

Fire hurts 600
About 600 people received medical treatment, mostly for inhaling smoke, after a fire broke out in Mexico City's underground railway system.

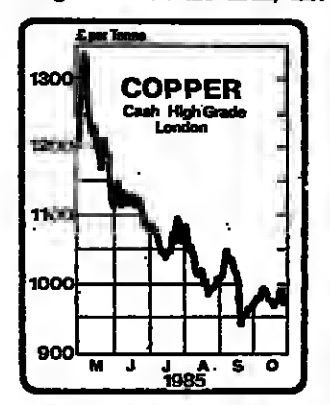
Weapons claim
The Soviet Union has chemical weapons in at least 32 East European sites and is ready to fight NATO with nerve gas, the U.S. Defence Department said.

Chinese crackdown
China has shut down almost 8,000 businesses illegally run by Communist Party and government officials. Page 6

Bulgarian curfew
Bulgaria introduced a curfew to ensure that its 1.5m schoolchildren are indoors early at night.

Chrysler outstrips rivals in quarter

CHRYSLER, U.S. car group, outperformed larger rivals General Motors and Ford in the third quarter, increasing operating and net profits while competitors were undercut by aggressive sales campaigns. Page 19



Thursday, business in other metals has dropped by an estimated 30 per cent. Yesterday the copper cash high grade price was down £21 at £208 a tonne. A two-day meeting of the International Tin Council, the producers' and consumers' group, starts in London today. Page 18; Commodities, Page 34

WALL STREET: At 3 pm the Dow Jones industrial average was down 1.51 at 3354.95. Page 42

LONDON: Weakness in gilts marred an active equity trading session. The FT Ordinary share index closed 2.2 down at 1048.6. The FT-SE 100 share index closed 0.2 higher at 1247.4. Page 42

TOKYO: A sharp rally led by blue chip electricals ended two consecutive sessions of declines. The Nikkei market average rose 104.41 to 12,937.04. Page 42

JAPANESE: government bond prices continued to fall in this trading as markets remained nervous about the future trends of Japanese interest rates and the value of the yen. Page 19; Editorial comment, Page 16

DOLLAR: was weaker in London, falling to DM 2.843 (DM 2.633). FF 6.035 (FF 6.085). SwFr 2.167 (SwFr 2.172) and ¥213.5 (¥214.8). On Bank of England figures the dollar's index fell to 130.6 from 130.8. Page 35

STERLING: gained 1/2 cent against the dollar in London to \$1.4275. It also improved to SwFr 3.0925 (SwFr 3.09) but fell slightly to DM 3.7725 (DM 3.775). FF 11.4975 (FF 11.5) and ¥204.75 (¥205.5). The pound's exchange rate index rose 0.1 to 80.4. Page 35

GOLD: In New York the Comex December settlement was \$328.7. Gold gained \$1 on the London bullion market to \$328.75 and was 75 cents higher in Zurich, also to \$328.75. Page 34

FINLAND'S smallest commercial bank, Bank of Helsinki, has become the object of a fierce takeover battle between two of its larger competitors Skopbank, the savings bank group, and Union Bank of Finland. Page 19

GUINNESS PEAT, which owns the Guinness Mahon merchant bank, sought to create a new UK financial conglomerate with a £212m (\$301m) bid for Britannia Arrow, the banking and investment group in which it already holds 39 per cent. Page 7; Lex, Page 18

CONTROL DATA, troubled U.S. computer maker, reported third-quarter net loss of \$25.1m compared with net earnings of \$54.5m in the same period last year. Page 18

GENERAL MOTORS postponed indefinitely its plans to take a controlling stake in Enxsa, the Spanish manufacturer of Pegaso trucks. Page 19

Nato ministers wary of plans to update N-arsenal

NATO DEFENCE ministers are shying away from plans for a controversial modernisation of the alliance's battlefield nuclear weapons for fear of giving fresh impetus to the nuclear protest movement, writes Bridget Bloom, Defence Correspondent, in Brussels.

The proposal which may be discussed in a secret session of NATO's Nuclear Planning Group of defence ministers opening in Brussels this morning, has been drawn up by General Bernard Rogers, NATO Supreme Commander in Europe.

Presented in outline to the ministers last March, the plan involves the introduction of new short-range nuclear weapons to NATO forces, including the British and West German armies, between 1988-1995.

In return, weapons dating from the 1960s and 1970s would be withdrawn. The Rogers plan is thus designed to provide for a sizeable reduction in the numbers of battlefield or short-range nuclear warheads in Europe. Some analysts suggest that as many as 1,000-1,500 could go, in addition to the 2,400 out of a 1979 total of 7,000, which NATO already plans to withdraw by 1988.

However, NATO ministers consider the possibility of deploying any new nuclear weapons in Europe to be such a sensitive political issue that they agreed to defer a decision on the whole issue in March, and may well do so again this week.

The Rogers plan neatly dovetails with one of the main agenda items for this week's Nuclear Planning Group meeting - the implementation of the much publicised decision, taken by the defence ministers at Montebello in Canada in 1983, to reduce NATO's short-range nuclear warhead stockpile by 1,400 between now and 1988.

The ministers are expected formally to agree that two categories of such weapons can be withdrawn without jeopardising NATO security. These are the Nike Hercules air defence system, which is being replaced by the non-nuclear Patriot

air defence weapon and most of the atomic demolition mines. These reductions are being presented as more than adequate compensation for the introduction of the new medium-range cruise and Pershing 2 missiles which began in 1983. But given the controversy which surrounded those deployments, ministers are baulking at the prospect of further reductions if they are tied - as Gen Rogers has insisted they must be - to the arrival of yet newer nuclear weapons in Europe.

The principal weapons which would be replaced under the Rogers plan have ranges of between 20km and 500 km, well below those of the cruise and Pershing. The weapons are the Pershing 1A, deployed only in Germany, the Lance missiles, deployed in central Europe by Britain, Belgium, Germany, the Netherlands and Italy, as well as the widely deployed 155mm howitzer shells and the sort of "free fall" bombs carried by Jaguar and Tornado aircraft, which constitute Britain's independently operated short-range nuclear deterrent.

Officials at NATO headquarters in Brussels and at the military headquarters near Mons were at pains yesterday to say there was no question of any of the weapons being replaced.

Continued on Page 18

Brussels plan would press UK, Greece to join EMS

BY QUENTIN PEEL IN LUXEMBOURG

THE European Commission proposed yesterday that the European Monetary System (EMS) be given the full legal authority of the Treaty of Rome, in a move likely to step up the pressure for Britain and Greece to join the exchange mechanism which links the rest of the EEC currencies.

The plan, presented by M Jacques Delors, president of the Commission, to EEC finance ministers, would also establish the procedure for creating a European Monetary Fund, which could ultimately become some sort of European central bank.

By incorporating the EMS into the Treaty, the Commission would firmly establish the competence of EEC institutions in monetary matters, hitherto regarded by some member states as a subject for separate inter-governmental and central bank negotiation. It would also give the Commission itself a right of initiative for the future development of monetary co-operation.

Sterling and the drachma could come under renewed pressure to participate fully in the system, because they would have to defend their continued isolation.

However, M Delors beat over backwards in his presentation to reassure the ministers - and indirectly their central bank governors - that the proposals were not intended to undermine national sovereignty in currency matters.

The commission plan was submitted yesterday as a proposed amendment to the Treaty of Rome, whose reform is currently being considered by senior national officials in the so-called inter-governmental conference. It constitutes the monetary arm of a Community reform package put forward by M Delors, including faster moves towards a single common market, and extending EEC competence for subjects

such as technology and the environment. The wording of the proposed amendment has nevertheless been drafted with great care so that currencies like sterling and the drachma which are not full members of the EMS exchange rate mechanism, would not seem to require a derogation from the Treaty to remain outside it.

The plan is still likely to be controversial, especially with the powerful West German Bundesbank, because of the process it could set in train towards autonomous European monetary institutions.

Herr Gerhard Stoltenberg, the West German Finance Minister, greeted it with predictable caution, reminding his colleagues that the Bonn Government was committed to thorough consultation with the Bundesbank before any development of the EMS could be approved.

M Delors, who had promised to present his monetary reform plans to the finance ministers before they went to the conference, insisted: "We are not proposing monetary revolution by institutional means. Nor are we proposing a complete standardisation."

"Treaty of Rome amendment should not overturn national rules, but take them into account," he said. Sig Giovanni Goria, the Italian

Continued on Page 18

IRI moves to depose Italian bank chief

By Alan Friedman in Milan

DR ENRICO CUCCIA, the 78-year-old eminence grise of Mediobanca, Italy's powerful merchant bank, was at the centre of a political storm yesterday when the three state banks that control 57 per cent of Mediobanca took the unprecedented step of boycotting the annual shareholders' meeting, causing its abrupt cancellation. The meeting was to have decided on whether to reappoint Dr Cuccia to the Mediobanca board.

IRI, the state holding group which indirectly controls Mediobanca through Banca Commerciale Italiana (BCI), Credito Italiano and Banco di Roma, was directed by the Minister of State Participations to oppose the reappointment of Dr Cuccia, thus trying to end his reign of 39 years of near absolute hegemony over Italian corporate finance.

The IRI banks last week announced they would not nominate Dr Cuccia to another term because he was beyond the mandatory retirement age of 70. Had Dr Cuccia been just another banker that would have been the end of the story. But he is a close ally of Sig Gianni Agnelli, the Fiat chairman, and other leaders of Italy's private sector establishment who also control stakes in Mediobanca.

At a lengthy meeting of the Mediobanca board on Sunday, Sig Agnelli offered to give up his board seat in favour of Dr Cuccia. It has been learned that the state banks rejected his offer.

Dr Cuccia, who is under investigation by a Rome magistrate in connection with an IRI embezzlement scandal from the 1970s, has been Italy's most influential deal maker and financial fixer of the post-war period. With the Agnellis, Pirellis and other members of Italy's financial elite, he has constructed a spider's web of financial power, based on industrial cross-holdings and on the fact that no important deal could go ahead without his personal imprimatur.

The very basis of this complex power structure has been thrown into doubt lately, in part as a consequence of the IRI's financial crisis. Continued on Page 18

Case to transfer much of tractor output to Britain

BY IAN RODGER IN LONDON

J. I. CASE, the U.S. farm and construction machinery maker, expects to invest £90m (\$128m) and create almost 2,000 jobs in Britain over the next five years under a plan to transfer a large part of its manufacturing activity from the U.S. to the UK.

Case officials said they were also looking at the possibility of transferring some production from the U.S. to their plants in France and West Germany as part of the strategy to produce the highest quality, cheapest tractors in the industry.

The plan, which will reinforce Britain's position as the largest maker of tractors in the Western world, will also mean the reopening of a former International Harvester tractor factory at Doncaster in South Yorkshire, and new exports worth about £10m a year by 1990.

The two tractor models being moved to Doncaster will come from the Case plant at Racine, Wisconsin, while the two transmissions, which are used in combine harvesters and cotton pickers, have been made at the former International Harvester plant at Rock Island, Illinois.

The Department of Trade and Industry in London, which is providing a grant to help with the cost of transferring machinery from the U.S. to Doncaster, estimates that by 1990 Case will be buying almost £60m a year in raw materials and components from UK suppliers, including engines from the Cummins Engine plant at Darlington.

Mr Peter Morrison, the junior industry Minister, said yesterday that this was one of the largest inward investment projects ever seen in Britain. It was also "a vote of confidence" in improvements in Britain's underlying competitiveness, productivity and industrial relations, in the fight against inflation and the

reduction in taxation especially on businesses. Mr Dick Seagrave, senior vice-president of Case for the group's European manufacturing plants, was less specific about the total five-year programme than Mr Morrison. He announced only the first phase, which involved the transfer of production of two tractor models and two transmissions from U.S. plants to the UK. This operation, to be completed in late 1988, would mean investment of £41m and the creation of 300 to 500 jobs at Doncaster, where the former International Harvester plant at Carr Hill, closed in 1982, would be reopened.

Mr Seagrave said these moves followed a major examination by Case of its farm machinery business after its acquisition of Harvester's farm machinery assets early this year. One conclusion was that the company, a subsidiary of the U.S. Tenneco energy and engineering conglomerate, should transfer some production from its U.S. plants to European plants if it was to be world cost competitive.

"By approval of the investment, Tenneco has given Case employees the opportunity to prove that we can beat the Japanese in North America with products made in Europe," Mr Seagrave said.

"Further projects are still in the planning stage for Doncaster which will result in more investment in the next few years," he said. "As we prove that Doncaster costs are competitive, we will create substantial additional employment in our factories."

Mr Seagrave also indicated that the future of the company's two other UK tractor factories, at Meltham, near Huddersfield, and Leigh, near Manchester, previously considered

Continued on Page 18

Warning by BIS on changes to capital markets

By Peter Montagnon in London

A NEW warning that the rapid pace of change in international capital markets "may contain the seeds of future problems" has come from the influential Bank for International Settlements (BIS) in Basle.

The warning, included in the first of a series of regular analytical reports on capital market developments, reflects the deep misgivings held by many of the leading central banks which own the BIS over aspects of the current market revolution.

None the less, the fact that the BIS has chosen to amplify its routine report on international bank lending flows testifies to its belief in the irreversibility of what it calls the "radical change" in international financial markets since 1982. This includes a slowdown in bank lending, an upsurge in bond business and the development of instruments such as note issuance facilities.

Five particular areas of concern are singled out in the report, starting with the split market that has developed in which banks are left doing business with the higher risk borrowers that cannot raise money in the securities markets.

Second, the BIS says that many countries are excluded from the international financial markets at present and ways will have to be found for them to regain access to the marketplace or to find other sources of funds.

Meanwhile, banks are increasingly undertaking off-balance sheet business, for example by underwriting Euro-dollars on very thin margins, although this was initially a deliberate strategy aimed at improving their profitability.

The sharp increase in bond market financing over the past few years has also led banks to pile marketable securities on to their own books. This may appear to strengthen their liquidity, but "might cause problems to the banking sector in the case of a general tightening of credit conditions."

Finally, banks and the authorities who regulate them face the difficult task of adequately assessing and providing for the risk involved in the new financing techniques, "a task in which past experience offers little guidance."

Figures provided by the BIS in conjunction with its study show that new business generated by the international capital markets in the first half of this year ran at a record level of \$115.5bn.

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EUROPEAN NEWS

Spanish opposition launches manifesto

BY DAVID WHITE IN MADRID

THE CAMPAIGN for next year's Spanish general election began in earnest yesterday when the main right-wing opposition party Alianza Popular launched a manifesto blaming the Socialist Government for failing to resolve the economic crisis and for "confusing a modern, young, dynamic country with a Third World nation."

Sr Manuel Fraga, the party's leader, said the manifesto, entitled "This Can Be Fixed," was a response to "profound frustration" over the results of Socialist rule.

The manifesto, which has taken more than a year to prepare, contains concrete proposals in fields such as the reduction and incentives for investment and exports. But it is more a critique of the Socialist model than a programme of specific measures.

Interestingly, it contains no proposals for privatising nationalised companies, calling instead for "reform" of the public sector. Sr Fraga said reform could mean privatisation in many cases, but that some state companies would continue as such.

The manifesto calls for more professionalism, fair competition between public and private companies, drastic cuts in state funds for lame-duck nationalised industries, limits to

bureaucracy, tighter control of the state's needs in order to release funds for the private sector, more spending on research and an easing of hiring-and-firing laws.

Other proposals include an end to exchange controls, the scrapping of property tax, lower inheritance taxes, and an amnesty to allow companies in the "black" economy to regularise their situation.

On the issue of Basque terrorism, it calls for "restoring the morale" of Spain's security forces.

Rejecting the planned referendum on Nato, it says Spain should become fully integrated in the alliance and should seek "compensations" for doing so—including over Gibraltar.

While backing Spain's entry to the EEC, the document criticises the farm terms and foresees a "new phase" of negotiations within the Community.

The latest opinion polls, however, show that Alianza Popular's hopes of reaching power are still remote. With 26 per cent of the electorate still undecided, the survey in the daily newspaper El País gave the party and its allies a committed vote of barely 13 per cent.

Fabius's aggressive match play called out of court by Press

BY DAVID MARSH IN PARIS

M LAURENT FABIOUS, the French Prime Minister, demonstrated at the weekend that he could rival the aggressiveness of the irascible U.S. tennis star John McEnroe, who happened to be in Paris for an exhibition match.

But his performance on Sunday evening in his televised debate with M Jacques Chirac, the Mayor of Paris and leader of the neo-Gaullist RPR opposition party, was judged generally negatively by the Press yesterday.

By making an all-out, but only partly successful, effort to hound and provoke M Chirac, M Fabius may well have strengthened his hand within the Socialist party ahead of the general election in March.

In the past he has faced criticism from the rank and file for being too weak. But he may have made a tactical error by breaking with an image of technocratic pragmatism and moderation that he has tried to establish with the electorate since becoming Prime Minister in July last year.

The debate was rich in insults and mutual accusations of failure during earlier periods of the two men's careers. M Fabius was blamed for sharply increasing the budget deficit when he was in charge of the Socialist's initial fiscal reduction as Budget

Minister in 1981. M Chirac was accused of producing double-digit inflation when he was Prime Minister under President Valéry Giscard d'Estaing between 1974 and 1976.

But the exchanges brought little in terms of concrete economic policy pronouncements, apart from M Chirac's promise that right-wing government would abolish administrative controls on redundancies.

With neither opponent likely to have strengthened confidence in his statesmanlike qualities among mainstream voters, the overall effect of the debate may

be to increase electoral disenchantment with party politics. The beneficiaries of the contest could be the two politicians on the Left and the Right who now most embody dispassionate solutions to the economic crisis, and are squaring up as the most likely contenders for the presidential election in 1988—M Michel Rocard and M Raymond Barre.

M Fabius, fresh from witnessing a French nuclear test in the South Pacific last week, made it clear from the outset his chief goal was to goad M Chirac. The Prime Minister, overruling appeals from the two journalists refereeing the debate, repeatedly interrupted M Chirac, and condescendingly reminded him at the end that a Prime Minister needed to keep calm in order to govern.

"Nasty" was the way the Left-leaning Liberation newspaper summed up M Fabius's performance yesterday. M André Fontaine, editor of Le Monde, said M Fabius had shown a "haughtiness" surprising for a man on the Left which might damage him in the future.

Although he will have won points from more militant Socialists, M Fabius may need more of McEnroe's sophistication and less of his abrasive need to win the big match next March.

U.S. official in Athens for talks on bases

By Andriana Ierodiakonou in Athens

THE U.S. Under-Secretary of State for political affairs, Mr Michael Armacost, arrived in Athens yesterday for two days of official talks during which he is expected to sound out the Greek Socialist Government's intentions on the future of the four American military bases in Greece.

The Socialists say they are committed to closing the bases when the present five-year agreement for their operation runs out in December 1988.

Mr Armacost is the most senior U.S. Administration official to come to Greece, since the Socialists won a second four-year term in government in general elections last June. According to both sides, his visit will be devoted to a comprehensive review of Greek-U.S. relations.

This is expected to cover, not only the thorny question of whether the bases are to go or stay, but also such issues as labour problems involving Greek workers at the bases, security both relating to terrorism and to alleged Soviet spying activity in Greece; and bilateral economic and trade relations.

Also expected to be discussed are the stalled sale of 40 American F-16 military aircraft to Greece, and the progress of U.S.-backed United Nations efforts to bring about a peace settlement in Cyprus.

Mr Armacost's two-day programme, today and tomorrow, includes a meeting with the Prime Minister, Mr Andreas Papandreu, who is also the Minister of Defence, as well as the Foreign Minister, the Minister of the Interior and Public Order, and the alternate Defence Minister.

The Greek side is attaching high importance to the economic aspect of the talks. Athens is anxious to breathe life into a commitment to develop bilateral economic relations, which has so far remained a dead letter, in Article 10 of the five-year agreement on the operation of the U.S. bases.

The agreement was signed between the Papandreu Government and the Reagan Administration in 1983.

For the U.S. side, the top priority is generally held to be the future of the bases.

Reflation possible in Portugal, claims departing minister

BY DIANA SMITH IN LISBON

PORTUGAL'S DRASTIC two-year financial stabilisation programme has succeeded to the extent that cautious reflation is now possible, according to the outgoing Finance Minister, Sr Ernani Lopes. He told a seminar for foreign bankers that economic growth would top 2 per cent this year, compared to a 0.5 per cent fall in 1984.

Inflation has declined from a high of 30 per cent in 1983 to a forecast 16 per cent this year. This has enabled disposable income to recover modestly.

Sr Ernani Lopes stressed that the remarkable improvement in the external accounts—the deficit has fallen from \$3.2bn in 1983 to less than \$200m expected this year—is not due merely to curbing imports.

Exports have grown by 45 per cent in volume since 1983, compared with 11 per cent between 1980 and 1982.

The governor of the central bank, Sr Victor Constancio, stressed that a change in the composition of exports will en-

able economic recovery to be made on a more stable basis. Imports have fallen not only because of recession but to higher agricultural and hydro-electric output, making it necessary to buy less grain and fuel.

Sr Constancio underlined the improvement in Portugal's foreign debt structure. There has been a drop in the short-term ratio from 30 per cent in 1981-82 to 18 per cent now. Total growth of borrowing has also slowed to \$546m, considerably less than planned at the beginning of the year. Thanks to an improvement in the current account deficit, liquid reserves have been built up for the first time in several years.

The effect of EEC membership from January, said Sr Constancio, will give Portugal access to special funds. This is likely to limit borrowing on the market to about \$1bn next year.

He added that Portugal can afford economic growth of 3-3.5 per cent next year, with a current account deficit of about \$650m.

Swiss right-wingers score surprise local election win

BY WILLIAM DUFFLORCE IN GENEVA

THE National Action, a right-wing political group campaigning on an anti-foreigner platform, scored a quite unexpected win in local elections in Lausanne on Sunday.

Coming shortly after the victory of the associated Vigilant group in local elections in Geneva, the result seems to reflect an upsurge in xenophobia in the cities of French-speaking Switzerland.

In Lausanne one in six voters backed the National Action (NA), giving it 16 seats on the city council and making it the third largest group after the Socialists (27) and Radicals (24), according to provisional results.

The NA was not represented in the previous council and had nominated only 12 candidates for Sunday's election; they now have to find four more.

In Geneva the Vigilants placed 19 members, a gain of 12, in the 100-seat city council, becoming the largest group alongside the Liberals. In both

elections the only other group to gain ground was the environmentalists.

The vigilants' advance was generally interpreted as reflecting the unique situation of Geneva, where one-third of the population is foreign and the native Genevese have started to resent the shortage of housing, high rents and traffic problems.

The result in Lausanne, where foreigners are much less prominent, suggests there may be other causes behind popular support for the nationalists.

The NA has been campaigning actively against what it claims to be an excessive influx of political refugees seeking asylum in Switzerland, in particular Tamils from Sri Lanka and Zaireans.

It made a breakthrough in local elections in Bern, the capital where 1,200 Tamils had congregated and notched up gains in other parts of German-speaking Switzerland, including Basle.

Advanced car for Romania

ROMANIA'S Autodacia car company is to introduce a new model next year which it claims will be four years more advanced than foreign cars and uses "no foreign licenses, parts or materials," Leslie Collis reports from Berlin.

The new Dacia 500 will be the fourth car model to be produced in Romania, an achievement no other East European country can match.

Photographs of the new car's prototype show it to have an up-to-date, ultra wedge-shaped, glass-fibre body. The car's weight of only 530kg and its two-cylinder, air-cooled engine developing 22.45hp, help explain the manufacturer's claim that it uses less than 4.5 litres of petrol per 100 km city driving.

The new model is desperately needed by Autodacia because the larger model Dacia is based on a Renault licence for the R-12 which was first produced in the late 1960s.

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MALAYSIA: Kuala Lumpur, Petaling Jaya
MALTA: Malta
MOROCCO: Rabat
PAKISTAN: Lahore
PANAMA: Panama City
PHILIPPINES: Manila
PUERTO RICO: Mayaguez, San Juan

SINGAPORE
SRI LANKA: Colombo
SUDAN: Khartoum
SWITZERLAND: Basel, Geneva, Zurich
TAIWAN: Taipei
THAILAND: Bangkok
TRINIDAD: Port of Spain
TUNISIA: Tunis
TURKEY: Istanbul
UNITED ARAB EMIRATES: Abu Dhabi, Al Ain, Dubai, Fujairah
UNITED KINGDOM: London (Park Lane and Kensington), Gatwick Airport
UNITED STATES: Chicago (The Drake), Honolulu (Kahala Hilton), Kansas City (Vista International), New York (Vista International), Oklahoma City (Vista International), Pittsburgh (Vista International), Washington, D.C. (Vista International)
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EUROPEAN NEWS

Coalition vote in Hesse leaves Greens divided

BY RUPERT CORNWELL IN BONN

THE ADVENT of the first ever "red-green" coalition to govern a West German Land, or state, is unlikely to heal the deep split within the radical anti-nuclear Greens party over the issue of powersharing with the Social Democrats (SPD).

This was clear yesterday, only hours after an often heated meeting of Greens from Hesse voted by a two-to-one majority to enter an SPD-led state administration which, for the first time in two years, will command a clear majority of the 110 seats in the assembly.

The meeting was marked by the argument between the party's two wings, the so-called "Fundamentalists" and the "Realists." The former reject any sort of deal with other parties: the latter believe that only by holding office will the Greens be able to put some of their policies into effect.

Sunday night's vote was itself taken in defiance of a recommendation here by the Greens' federal committee, the party's senior constitutional body after the annual national conference, to reject the coalition proposal.

INFLATION in West Germany has again fallen below 2 per cent, writes Rupert Cornwell. According to provisional figures, prices in October were only 1.7 per cent above the level of 12 months earlier. The figure, which confirms West Germany as the Western country with the lowest inflation rate, is the best since September 1984, when the rate briefly touched 1.5 per cent. In August this year inflation stood at 2.1 per cent.

on the grounds that it could fatally diminish the credibility of the Greens as an anti-establishment movement.

Herr Jan Kuhnert, a dissenting Green member of the Hesse parliament, said yesterday he would vote against the new government when it takes office in a few weeks. He accused his colleagues of falling into the trap set by Herr Holger

Boerner, Hesse's SPD Premier, aimed at the gradual destruction of the Greens in the state.

The main consequences of the deal are likely to be in the field of the environment. Herr Joschka Fischer, the 37-year-old former Bundestag deputy who will hold the Hesse environment portfolio for the Greens, declared yesterday that he would insist that existing environment controls are observed strictly.

While the threat of tighter curbs is the principal reason for the abuse heaped on the Green-SPD agreement by big business in recent days, the new coalition is already weighing upon party tactics here, as the run up begins for the federal elections due in 1987.

Chancellor Helmut Kohl is only the latest senior conservative politician to point to the Hesse agreement as proof of how the SPD, and Herr Johannes Rau, his likely opponent for the Chancellorship in 1987, could not be trusted in their assurances that the Social Democrats would not do a similar deal, if necessary, to regain national power.

TOMORROW'S SPACELAB MISSION WILL TEST COMMERCIAL POSSIBILITIES

West Germany takes major leap into space

BY PETER MARSH

WEST GERMAN scientists and industrialists will be turning their attention towards the heavens this week on the occasion of the country's first major space mission, an event that could pave the way for space factories.

The country is paying DM 400m (£105m) to use Spacelab, a manned orbiting container crammed with scientific experiments and owned by the US for an eight-day mission due to start tomorrow.

Spacelab is due to fly around the Earth roughly 130 times inside the cargo bay of a U.S. space shuttle while its crew of astronauts conducts scientific experiments. The crew of eight (the largest yet for a single space mission) includes five Americans, two West Germans and a Dutchman.

According to the West German Ministry of Research and Technology, the trip represents the first step in mapping out the shape of commercial space ventures in areas such as low-gravity materials processing and biology experiments.

Although the 76 experiments on the Spacelab flight are mainly the work of university

scientists, West German industry is beginning to show interest in materials experiments in the heavens.

One indication is that a group of West German companies—Wacker Chemie, MAN, Krupp and Standard Elektrik Lorenz—is collaborating with academic scientists in some of the experiments on this mission, code-named D-1.

Wacker, a leading supplier of silicon, wants to find out if low gravity makes it possible to grow large, near-perfect crystals of semiconductors. Krupp, meanwhile, thinks that the company's metallurgy researchers could benefit from work in observing, for instance, how different mixtures of metals behave under weightlessness.

Joint venture

Of greater long-term significance may be the formal establishment, last week of Intospace, a Hanover-based joint venture involving several giants of West German industry such as MBB Erno, Volkswagen, Daimler Benz and BMW.

Intospace, whose other large shareholder is Aeritalia, the

Italian aerospace company, plans to act as a marketing agency to tempt manufacturing companies to try out space as a place in which either to do experiments or to set up prototype process plants.

For instance, the company will attempt to act as a bridge between government agencies that will operate the \$12bn international manned space station, due to be built under U.S. leadership in the 1990s, and companies which could use the facilities of orbiting workshops to turn out new products.

Intospace's other shareholders include Kali-Chemie (chemicals), Preussag (minerals), Hans Kolbe (pump builder), Kienbaum (consultants), Kayser Threde (which plans to market sounding rockets) and two banks, Commerzbank and Nord Deutsche Landesbank. MBB Erno and Aeritalia are the two main stakeholders with 5 per cent each; the others own between 0.5 per cent and 4 per cent.

Matra and Aerospatiale, two French aerospace companies, have indicated they want to take part. Companies from other countries may join later.

Aerospace companies are allowed to take a total shareholding of only 38 per cent, with the rest reserved for user industries.

Herr Juergen Witte, marketing manager at MBB Erno, said Intospace would probably not build its own space platforms but would use hardware owned by government organisations, including the U.S.-owned Space Lab and Eureka, an unmanned space platform under construction by the 11-nation European Space Agency (ESA).

Reunion

This week's Spacelab flight will in some ways be a sentimental reunion between West Germany and Spacelab itself. The orbiting container was built under West German leadership as an ESA project in the 1970s.

MBB Erno in Bremen was the main contractor and the West German taxpayer contributed about half the \$750m required. Under an agreement with the U.S., however, Spacelab was then handed over to the U.S. National Aeronautics and Space Administration. The orbiting workshop has been into orbit three times on previous shuttle

flights. The first mission, in November 1983, was a joint exercise between the ESA and NASA while the other two were all-American flights.

For D-1, West Germany is paying Nasa DM 170m (£45m) for the hire of Spacelab and for the costs of launching a space shuttle. The rest has been paid for scientific experiments and staff salaries.

As part of an agreement with Nasa, the ESA is supplying further experiments which it is paying for separately.

Not the least significant part of this week's launch is that it will double the number of West Europeans to go into space. Two Frenchmen, Jean-Loup Chretien and Patrick Baudry, and a German, Ulf Merbold, have already entered orbit in U.S. or Soviet spacecraft.

They will be joined in the history books tomorrow by Professor Reinhard Furrer and Dr Ernst Messerschmid, who are employees of the DFLR, the West German aerospace research organisation, and Dr Wubbo Ockels, a Dutch physicist who has trained for spaceflight under the auspices of the ESA since 1977.

Recovery fails to ease young people's unemployment burden

Robin Pauley looks at OECD's forecast of job trends for youth

THERE HAS been a startling deterioration in the nature of youth unemployment throughout the world's major economic nations, and there is now virtually no hope of reducing appreciably the large number of

unemployed young people in these countries in the foreseeable future.

This is the gloomy diagnosis of a special report by the Organisation for Economic Co-operation and Development (OECD) in Paris based on 19 of its member nations.

Between 1979 and 1982 youth unemployment increased by a half in the OECD countries to an average level of 17.4 per cent. The lowest was Japan at 4.4 per cent and the highest Spain at 38.8 per cent with Britain at 23.1 per cent.

Only in the U.S. where there has been dramatic job growth, is there much hope on the employment front.

Overall unemployment in the OECD area other than the U.S. is expected to continue rising. It increased from 19m in mid-1984 to 19.5m in mid-1985.

In the four major West European countries—Britain, France, West Germany and Italy—the unemployment rate for young people continued rising from 21.1 per cent in 1983 to 22.4 per cent in 1984 and 22.1

per cent in 1985.

In short, contrary to all past experience with youth unemployment in the OECD area, the current economic recovery is not expected to yield appreciable dividends in increased employment opportunities for young people in most OECD countries, or reduced unemployment rates.

The organisation concluded that new policies were needed for the young including new education and training strategies and alternatives to work to cope with the long-term intractability of the problem.

Since the OECD first started analysing youth unemployment in 1977, the youth unemployment crisis has changed in its nature in four important respects.

● Unemployment for disadvantaged youth, particularly the disabled, has increased and spells of unemployment have become longer for them.

YOUTH UNEMPLOYMENT IN SELECTED OECD COUNTRIES

	1983	1984	1985*	1986*
Youth unemployment rates				
U.S.	16.4	13.3	12.1	12.1
Japan	4.5	4.9	4.4	5
West Germany	16.8	18.1	21	21
France	21.1	26.1	29	31
UK	22.7	21.8	21.1	21
Italy	32.0	34.1	35.1	37
Canada	19.9	17.9	17.1	17
Spain	38.9	44.5	46.1	46.1
Youth unemployment levels (millions)				
Seven major countries	9.2	8.5	8.1	8.1
Four major European countries	4.2	4.3	4.1	4.1

*Estimates

● Unemployment among better educated and better trained youth has increased making it difficult for them to find secure jobs. Most of their difficulty stems from too many people seeking too few jobs but they also seem to be victims of "widespread structural mismatches."

● Labour force participation rates have dropped in nearly all countries, most markedly for teenagers, and education enrolment has risen.

● As youths move into their 20s their employment experience is not improving, contrary to past experience, raising the spectre of a high-risk genera-

tion—a cohort of young people born between the late 1960s and mid-1980s—which could transform today's youth unemployment problem into tomorrow's adult unemployment problem.

The report called for additional education and vocational training and skill-training better directed at those jobs and employment sectors which are expanding.

It also called for an increase in employment either through job-sharing or through the reduction of marginal labour costs through, for example, sub-minimum wages for youth or through wage subsidies, although it underlined the fact that there were also disadvantages with all such schemes.

But, as the OECD analysis indicates that high youth unemployment is here to stay for several more years at least, the report also called for new policies on alternatives to un-

employment making spells without work more productive for individuals and society.

The basic proposal might be a youth allowance paid as a right to all young people not in full-time employment to give them a financial base. They could then undergo more education or training or pursue a variety of initiatives and part-times outside the workforce.

Such an approach to a youth guarantee would transform the present stigmatised safety net approach to welfare payments to the non-working young.

"The efforts and energies of the young could be directed by an additional means-tested living allowance to those in full-time education or training, or undertaking some form of youth service."

If social integration were a serious objective other benefits might be provided—half-price travel and entry to institutions, clubs and entertainment for everyone up to the age of 21—and adequate housing.

The cost of such an approach could be financed partly by

substituting the youth allowance for the existing range of subsidies and payments aimed more or less at youth. These include student scholarships, subsidies to employers, unemployment and welfare benefits, allowances to parents of dependent children over 16, free or subsidised post-compulsory or university education.

The scheme would still require net extra expenditure in most countries depending on the type of scheme developed but the youth bulge is growing older and most countries are starting to see a decline in the population in the 16 to 18 age group "so the present time may be a favourable opportunity," the report said.

"The final cost would need to be weighed against the seriousness with which society regards the youth problem. It would certainly meet many of the concerns felt about youth."

New Policies for the Young; OECD; 2 rue d'André Pascal, 75775 Paris Cedex 16.

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AMERICAN NEWS

Alfonsín under pressure to explain siege declaration

BY JIMMY BURNS IN BUENOS AIRES

THE CREDIBILITY of Argentine President Raul Alfonsín's Government has been put on the line in the run-up to Sunday's midterm congressional and local elections.

This appears to be the main outcome of the events of the last week which began with the linking of six military officers and six civilians to a "destabilisation campaign."

The week climaxed in an unprecedented tug of war between the democratic authorities and the judiciary following the surprise declaration of a state of siege on Friday.

The order on Tuesday to arrest the 12 initially struck public opinion as a bold and necessary step by a government that was being shown up as impotent in the face of a wave of bomb attacks against military and civilian targets.

But the appearance of purpose and resolution implicit in this first clampdown on serving hard-line military officers since the Government took power in December, 1984 has proved a two-edged sword.

Within hours leading jurists

vociferously challenged the Government's decision, turning the ruling Radical Party's professed respect for human rights, the constitution, and the rule of law on its head.

The presidential decree had no legal precedent in its violation of three articles of the constitution which state quite clearly that no Government, however politically justified, can detain suspects without trial without first declaring a state of siege.

In fairness to the Government, the initial decree was less a conscious re-run of methods practised regularly by former military regimes than the product of legal confusion and political miscalculation made under pressure of events.

Government officials appear to have been initially influenced by recently approved parliamentary law which declared as a crime any attempt to destabilise a democratically elected government.

The arrest of the 12 was ordered only after a careful analysis of the options that were open to the Government.

The main consideration appears

to have been to thrash out a formula that would effectively put a stop to the bombs without doing anything that would unduly alarm domestic and international opinion.

The Government was particularly worried about the impact a declaration of a state of siege might have on its image abroad since the success of its foreign policy on issues like the Falkland Islands depends fundamentally on the regime being viewed as democratic.

It was also felt that such a drastic move would be quickly exploited by the opposition which has accused the Government of turning Argentina into an authoritarian controlled democracy, Mexico style.

Last Tuesday night Sr Antonio Troccoli, the Minister of the Interior, declared: "We shall avoid a state of siege and a serious disturbance that this would signify for the electoral campaign."

By Friday the Minister had been forced to eat his words. A state of siege — officially "in defence of democracy" but also as a way of providing a fool-proof legal case — was declared

after a judge had ruled the initial arrests unconstitutional "for lack of evidence."

Yesterday, an appeals court ruled that the state-of-siege decree empowered President Alfonsín to order arrests. Following this ruling, President Alfonsín is hoping that the embarrassing battle with the judiciary is over.

The Government has taken comfort from the fact that Western governments led by the U.S. have rallied quickly in its support — an indication that any future attempt to topple democracy in Argentina will count on few allies.

On the domestic front most politicians have accepted that the measures will have only a limited scope and will not affect basic civil liberties or the holding of elections.

Nevertheless, there remains a lingering perception of a week during which a government somewhere along the line came dangerously close to losing its hold on things.

The crisis, moreover, has left unresolved the question mark which still hangs over the real nature of the perceived

threat. As a result Sunday's elections remain overshadowed with uncertainties.

Government officials have so far preferred to hint only in private rather than clarify anything in public, throwing an element of potentially dangerous confusion into the already heated election campaign.

The most plausible conspiracy theory is that those arrested had been working closely with sectors of the right-wing Press to exploit current military disquiet with the human rights trial of the former juntas.

Nevertheless, most political observers here discount the possibility that the wave of terrorism can develop into a successful coup. Though clearly unhappy with the trial of the juntas, the bulk of the armed forces are reluctant to assume the responsibility for the social chaos and diplomatic isolation that would almost certainly follow a more widely organised intervention at this stage.

Fresh debate has been fuelled, however, by the fact

that the Government has so far held back from further arrests against the unpredictable lunatic fringe. One theory is that the arrested officers were acting under orders from more senior members of the military hierarchy, whom the Government has preferred to leave untouched for the moment for fear of provoking a wider conflict with the armed forces. This is the result, critics say, of a lack of Government resolve to push ahead with military reform, particularly inside the intelligence forces.

The continuing hesitance suggests that the Government wants to await the outcome of Sunday's vote before deciding how to deal with the armed forces.

The other theory is that the Government has exaggerated the conspiracy to ensure that its civilian population rallies behind President Alfonsín.

Like the boy who cried wolf too many times, the Government is facing increasing pressure from the Opposition to define when a plot is really a plot and not simply a touch of Machiavelli.



Alfonsín... concerned about his country's democratic image

Blue-collar pay rises slowly in U.S.

By Stewart Fleming in Washington

INFLATIONARY pressures from U.S. wage settlements for blue-collar workers are continuing to abate judging from the latest data on major collective bargaining settlements in private industry released yesterday by the Bureau of Labour Statistics.

Some economists fear that the modest pace of blue-collar wage increases, which are running below the rate of inflation could become a drag on the economy especially if inflation were to accelerate in response to the decline in the dollar.

These concerns are tempered however by evidence that many white-collar workers are still being awarded more generous increases than those being secured by industrial workers.

The Government said yesterday that major collective bargaining contracts in private industry during the first nine months of 1985 provided average wage increases of 2.3 per cent in the first year of the contract and 3.4 per cent for the life of the contract, normally two to three years.

The last time management and labour set wage levels in the sectors covered by the figures, average wage increases of 3.5 per cent in the first year of the contract and 3.4 per cent for the life of the contract were agreed.

The latest survey was conducted among the 1.6m workers who signed agreements between January and September of this year, a group which included trucking, apparel, construction and electrical machinery manufacturing workers.

Of the 1.6m workers, 1m received increases averaging 4.2 per cent in the first year, \$31,000 had no wage change, while the remainder in the construction industry will suffer wage cuts.

Separately the Government reported that productivity in the third quarter as measured by output per hour of all workers rose at a seasonally adjusted annual rate of 3 per cent. This was significantly better than the gains of 1.5 per cent in the second quarter, in spite of a sharp slowdown in annual rates of productivity growth in the manufacturing sector from 6.8 per cent to 2.4 per cent.

Oilfield finds raise Brazilian hopes of self-sufficiency

BY ANDREW WHITLEY IN RIO DE JANEIRO

THE DISCOVERY of two major oilfields in deep waters near Rio de Janeiro has raised Brazil's proven reserves by 75 per cent. The finds could also guarantee this previously large importer of crude oil self-sufficiency by the end of the decade.

Located in waters ranging between 820 and 3,600 feet in depth, the discoveries will, however, be a challenge technologically. The deepest offshore oilfields in production worldwide—in Brazil's Campos Basin and in the Gulf of Mexico—are in water depths of around 1,300 feet.

The two new fields are known by the code numbers of their key wells, 219 and 305. Both are large by world standards, with combined recoverable reserves of more than 1.5bn barrels, equivalent to nearly seven years' domestic consumption.

To bring them on stream Petrobras, the state oil company, is planning a substantial increase next year in its exploration and production investment programme, reversing a recent downward trend.

According to Sr Helio Beltrao, the Petrobras president, spending in 1986 will reach about \$3bn (£1.1bn) compared with between \$1.6bn and \$1.7bn this year. The previous peak in Brazil's oil production drive was in 1982, when the company's exploration and production budget reached \$2.5bn.

Since then the oil sector has had to bear its share of the successive cuts in state spending. According to Petrobras, leading foreign concerns such as Brown and Root of the U.S. will have a role to play as consultants, but equipment orders are expected to be placed almost exclusively with Brazilian offshore industry companies, who are facing a shortage of business.

Local companies such as Mendes Junior and Montreal Engenharia are already responsible for 95 per cent of supplies to the Brazilian offshore oil programme.

Both of the new fields are located on the fringes of the Campos Oil basin, already by

far the largest oil producing region.

Oil with a specific gravity of 21 degrees API, a heavy grade but said to be flowing easily, was first struck in Field 219 in February this year. But the field's full potential of over 1bn barrels of recoverable crude was only recently confirmed.

There is greater uncertainty over the size of Field 305, located on the northern edge of the Campos Basin. But Sr Wagner Freire, exploration director of Petrobras, said last week it certainly contained over 500m barrels, with an API of 29 degrees. The largest Brazilian field in production—the Namorado in the Campos Basin—is believed to contain 250m barrels.

Brazil is currently producing over 600,000 barrels per day, two thirds of its needs. A decision to go ahead with the development of 305, which is in shallower waters than 219 and thus presents less of a challenge to technology, is likely to be taken in early 1986, according to Sr Freire.

Machine tool orders fall 7%

By Terry Dodsworth in New York

ORDERS for U.S.-made machine tools fell sharply last month from their level of a year ago, according to the National Machine Tool Builders' Association. This means they have declined for three consecutive months.

Although deliveries have increased in the quarter by 12 per cent from their August total to \$245.5m (£168m) orders were down by 7 per cent on the previous month to \$171.7m. Compared to a year ago, they fell by 40 per cent.

Analysts also see the downward trend as a threat to robust growth in the U.S. economy next year, when many economists have been predicting an upturn from this year's record of low growth.

If the present trend continues for the rest of 1985, it is unlikely that the machine tool industry will be able to top the annual orders of \$2.9bn achieved last year.

Wheeling-Pittsburgh workers end strike

BY PAUL TAYLOR IN NEW YORK

WHEELING-PITTSBURGH'S 3,200 U.S. steelworkers have begun returning to work ending a three-month-old strike at the nation's seventh-largest steelmaker.

The return, which ends the first major U.S. steel strike since 1959, came after workers ratified a wage and benefits package cutting Wheeling-Pittsburgh's already below-average wage rates by 16 per cent to \$18 (£12.60) an hour from \$21.40. The U.S. industry wage and benefits packages average between \$23 and \$24 an hour.

The wage pact, seen to be a key test for the still beleaguered U.S. steel industry, is also crucial to Wheeling-Pittsburgh's new management's attempts to return to financial health.

The steelmaker filed for protection from its creditors in April this year after talks with its bankers on restructuring \$514m in long term debts broke down. The company's steelworkers later went on strike after the company attempted to impose wage cuts. Last month Mr Allen Paulson, Wheeling-

Pittsburgh's biggest shareholder, took control of the steelmaker in a management reshuffle involving the resignation of Mr Dennis Carney, the company's controversial former chairman.

Union ratification of the contract—by almost a four-to-one margin—came over the weekend after a federal bankruptcy judge over-ruled objections to the agreement filed by Wheeling-Pittsburgh's 11 creditors.

Wheeling-Pittsburgh said yesterday that a "skeleton crew" returned to work Sunday and that it expects to begin steel production early next week.

The agreement, which comes after months of tense negotiations, also provides for the company's federally-backed pension plan to be abandoned and replaced by a cheaper version.

The existing pension plan was underfunded by \$426m which means its termination will leave the Federal Pension Benefit Guaranty Corporation to make up the bulk of the deficit.

U.S. group halts sale of drug

By Tony Jackson

U.S. drug company Warner-Lambert has suspended sales worldwide of its anti-arthritis drug isoxicam, which has been reported to cause skin inflammations.

The drug, first marketed three years ago, is on sale in France, Germany, Switzerland, Austria and Belgium, and in some countries in South America and the Far East. It has not yet received official clearance in the UK or the U.S.

Under the Vectren brand name, isoxicam is claimed to have a 6 per cent share of the French non-steroidal anti-inflammatory market for the treatment of arthritis. Complaints about the drug's side effects have come mainly from the French authorities.

The drug has been associated with erythema multiforme, an inflammatory skin condition often caused by a hypersensitivity reaction to drugs. In the severe form of Stevens-Johnson syndrome—also associated with isoxicam—the condition has been known to be fatal.

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AIR CANADA

WORLD TRADE NEWS

UK uncertain over resuming talks on China nuclear plant

BY ROBERT THOMSON IN PEKING

BRITISH Embassy officials are uncertain when the British side will return to the negotiating table to discuss the construction of a \$4bn (£2.6bn) nuclear power plant in southern China, while French officials and Framatome of France are still talking to the Chinese about their participation in the project.

A British delegation, including representatives of GEC and the Government, left Peking late last week after having failed to reach an agreement with the Chinese on the price of turbines and other equipment that GEC had been earmarked to supply, in a complementary package with Framatome, for the plant at Daya Bay, in Guangdong Province.

An Embassy spokesman said yesterday that "We hope talks will resume as soon as possible," though he could give no indication as to when that would be.

The Chinese are understood to have pressed for a discount of about 25 per cent from GEC, as well as better credit terms. Officially, the British have called their departure from the negotiations a "pause," and say the two sides are closer to an agreed price than they were two weeks ago, when the most recent round of diplomatically sensitive talks ended to be inconclusive.

One British observer here suggested that GEC is in a more vulnerable bargaining position than Framatome, as several other companies could provide the turbines for the 1,800 MW plant, whereas Framatome is a leader in the field of pressurised-water reactors.

A French official said the Framatome and French Government negotiators were taking their talks with the Chinese on a day-to-day basis—they talked yesterday, and will talk today and could well talk tomorrow. The Chinese are understood to have pressed for a 20 per cent discount in the reactors, estimated to be worth \$1.37bn.

"It depends on the Chinese. The negotiations are still going on. Everybody hopes that the issue will be settled. A nuclear plant is not a simple matter."

Last week, an official from Guangdong Nuclear, which is overseeing the Chinese side of the project, warned that the settlement during the present round of talks, then "we will have to reassess the whole situation and possibly find new suppliers from other countries."

The joint venture is shared by Guangdong Nuclear, which has a 75 per cent stake, and the Hong Kong Nuclear Investment company which has 25 per cent. The joint venture contract was signed in January of this year. The equipment supply contracts seemed to be something of a formality.

But the negotiations have become more difficult as the Chinese side has sought price discounts and better credit terms from the British and French suppliers.

When the Chinese Premier, Zhao Ziyang, visited Britain in June, he indicated that China was still keen on GEC providing the turbine equipment, but the company's chances would be enhanced if there was a price cut.

New Delhi simplifies electronics licensing

By John Elliott in New Delhi

THE INDIAN Government has simplified industrial licensing procedures for its rapidly expanding electronics industry in the latest of a series of industrial policy reforms introduced since Mr Rajiv Gandhi became Prime Minister one year ago this week.

A concept of "broad banding" already introduced to give companies more production flexibility in a wide range of industries, including motor vehicles, pharmaceuticals and industrial machinery is now to be applied in electronics.

This means that instead of having to apply for a licence for each product and for precise quantities of output, electronics companies will be able to vary their production within five areas or bands: entertainment electronics, electronic toys, computer peripherals, testing and measuring instruments, and discrete conductor devices.

The Government wants electronics output to rise from \$1.6bn a year to \$10bn a year by 1990.

Yesterday, the Department also announced that it is inviting applications from foreign manufacturers and Indian companies for licences to produce video-cassette recorders and players and import microwave ovens.

For each partner, CVRD is expected to propose that this should be based on the going London Metal Exchange (LME) rate; and, in this start-up phase, the Brazilian company is proposing purchasing all Albras' output at the LME price.

Although the new aluminium plant—located about 30 miles from Belém, at the mouth of the Amazon—has come on stream at an untimely time from the point of view of the considerable over-capacity in the industry, its administration believes the plant has several important cost advantages over competitor plants in Brazil and abroad.

One ironic consequence of the standstill on work on its associated alumina plant is that Albras has been able to sign an alumina supply contract with Surinam at a much lower cost than it would have had to pay for its own product.

Sr Romeu do Nascimento Teixeira, Albras' president, said yesterday that a three-year alumina supply contract has been signed with Suralco, an Alcoa subsidiary in Surinam, at a price of \$125 a tonne—well below the production cost of any new plant in Brazil.

India drives a hard bargain on car parts

THE PRICES of spare parts in India for Japanese Suzuki 800 cc cars are to be cut by 25 per cent to 60 per cent this week because of the heavy battering the lively but relatively fragile cars have received on the chaotic streets of New Delhi.

In an internationally pace-making deal, India has persuaded Suzuki to change traditional high price structures for Japanese-made bodywork spares.

These spares are usually in low demand but have been selling at a rapid pace in Delhi since the cars began to be assembled in India two years ago because of a high rate of minor accidents.

Suzuki has also recognised the special needs of a developing country and has agreed to help boost Indian manufacturing by taking equity stakes in companies that will produce components for the indigenous manufacture of the cars.

The price cuts are in response to public opinion in the Indian capital which has reacted against paying \$67 for a new windscreen, \$116 for a door, or \$43 for a front bumper, after minor mishaps.

Such accidents would hardly scratch the sturdy bodies and fittings of the country's 30-year-old Morris and Fiat based cars. The damage would be instantly and cheaply patched up in back street workshops, instead of requiring the expensive composite assemblies of a modern car.

"This is the first time Suzuki has agreed to such cuts—but then the accident rate in Delhi for the cars is the highest in the world," says Mr R. G. Bhargava, managing director of Meruti Udyog, the company which produces the vehicles and is 36 per cent owned by Suzuki and 74 per cent by the Indian Government.

He estimates that 70 per cent of all accidents in the cars in India in the past two years have happened in Delhi where the Suzuki's sharp acceleration and disc braking have confused other motorists. Delhi's roads are full of bullock carts, cycles, scooters, slow moving cars, deer, buses, aggressively jockeying for precedence, all ignoring any Western notion of lane discipline or road courtesy.

The Suzuki was India's first successful automotive manufacturing tie-up with Japan. It has been followed in the past two years by a rush of deals for two wheelers and commercial vehicles involving virtually all Japanese manufacturers.

In addition Nissan, Isuzu and Honda, plus possibly Toyota and Subaru—all from Japan—are bidding to produce cars.

From Europe Citroën, Peugeot and Volkswagen are also in the race and BL's Rover car is to be produced soon.

Now the Indian Government is reviewing its production policy. It is worried about persuading the Japanese companies to move from profitable assembly operations using imported kits to achieving

targets of about 80 per cent Indian manufacturing within five years.

It also fears that it may be appending too much foreign exchange on a large number of collaborations and that economies of scale will not be achieved.

Suzuki has tried to shift itself out of this controversy with its initiatives on component pricing and manufacturing. Its incentive is that production of the cars and associated light

The cuts have been organised by switching the body spares from Suzuki's high priced list of slow-moving stock items to its list of fast moving items, which have lower mark-ups.

A new windscreen, for example, is coming down by 55 per cent from \$67 to \$30.

Further price cuts of about the same percentage points are being made on other spares which have been bought at high prices from Japan to supplement current low levels of production in India.

The Japanese-made parts are now to be used in new models (where they will cost less because of differential pricing arrangements) and the cheaper Indian-made products will be sold as spares.

This will, for example, reduce the price of a radiator by 61 per cent from \$118 to \$46—the biggest cut being made. A rear lamp assembly is coming down from \$43 to \$21.

The joint venture manufacturing plans involve a total investment of about \$25m to produce components totalling 18 per cent to 20 per cent of a car's value.

They are a response to sluggish performance by India's motor component industry. Suzuki and Maruti will both take minority stakes totalling perhaps 30 per cent of the equity in ventures where Suzuki provides the technology from Japan for products such as fuel tanks, plastic injection mouldings and silencers.

Meruti alone will take a smaller minority stake of about 10 per cent to 20 per cent in other joint ventures for products such as moulding and tempering windscreen glass, steering gear and smaller press shop components.

Both companies expect these joint ventures to make it easier to obtain technology from Japan and to raise money on India's buoyant stock exchanges when funds from the Indian Government are short.

Control over costs and quality will also be more easily exercised. Domestic content is at present behind schedule. Only about 30 per cent of a car's value is now being produced in India, says Mr Bhargava, instead of a planned 43 per cent.

Next year's figure is expected to be 48 per cent instead of 56 per cent. But Mr Bhargava hopes that the joint ventures will enable the 1987-88 target of 75 per cent to be achieved.

In the meantime, a Suzuki Gypsy four-wheel drive model is being launched in December and Suzuki's new 800cc car, which is to be introduced into Europe soon, will appear in India next June.

Mr Osamu Suzuki, the company's president, is showing that he is happier with the venture than most people would have believed possible two years ago by offering a holiday in India and a tour of the Maruti factory to coincide with the launch of the Gypsy as this year's prize for his top 100 Japanese dealers.

Japan and Brazil in tussle over aluminium project

BY ANDREW WHITLEY IN RIO DE JANEIRO

A TUG of war has erupted between Brazil and Japan over the future of their new aluminium joint venture in the Amazon, the \$1.3bn (£1bn) Albras plant—inaugurated only last Thursday.

Against the background of the current low world prices for primary aluminium, talks opened yesterday in Rio de Janeiro, between Companhia Vale do Rio Doce (CVRD), the Brazilian state-owned aluminium mining company, and a Japanese Government-led consortium of 33 companies.

While the Brazilian side is anxious to complete the project—designed to reach eventually a full capacity of 320,000 tonnes—as soon as possible, the Japanese partners are making no secret of their desire to reduce their investments over the coming years to the minimum.

This week's talks are expected to concentrate on the speed at which Albras will build up from its present installed capacity of 80,000 tonnes to 160,000 tonnes, the end of its first phase, as well as the initiating of the second phase. This will require a further \$600m.

Another contentious issue to be resolved is the off-take price

Airlines closer to satellite in-flight links

By Michael Doonan

THE WORLD'S airlines are moving closer to the use of satellites for in-flight communications by aircraft flying almost anywhere around the world.

The International Maritime Satellite Organisation (Inmarsat), which provides ship-to-shore communications via satellite, is planning to offer such satellite services to airlines from 1987, initially for demonstration and evaluation purposes.

The airlines, through the International Air Transport Association and the International Civil Aviation Organisation, are studying the use of satellites not only for communications but also for future air navigation purposes.

They have set up a committee on future air navigation and communications systems (FANS), to determine what equipment airlines will need to install in their aircraft to enable them to use satellite systems, and the costs involved.

Airlines welcome Malaysia move to end 'flight tax'

BY CHRIS SHERWELL IN KUALA LUMPUR

FOREIGN airlines operating out of Malaysia yesterday welcomed a government decision to end the controversial tax measure favouring Malaysian Airline System (MAS), the national flag carrier.

The measure, first introduced in last year's budget, required people to travel by MAS if they wanted a tax exemption on the overseas trips they received from employers as part of their pay.

The aim was to boost MAS at the expense of other airlines and to stem the outflow of foreign exchange from Malaysia. But it provoked strong protests from foreign governments as well as international airlines.

Citibank in Hungarian venture

By Leslie Collier in Berlin

CITIBANK of New York and Citicorp Bank of Hungary will open a joint commercial bank in Budapest next January in the first venture of its kind by Hungarian and American banks.

The bank, in which Citibank has a majority stake, will be able to provide loans in Hungarian and Western currencies to Hungarian companies and to take deposits in forint or Western currencies.

Factoring, which was introduced in Hungary in 1976, is only now beginning to catch on among Hungarian companies. The Hungarian Foreign Trade Bank (MKB) which took over factoring operations from the National Bank last February, has concluded framework agreements with 14 factors abroad.

They assume the risk and expense of collection for Hungarian companies and offer them a bill of exchange before the bill is settled.



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OVERSEAS NEWS

Anthony Robinson previews five by-elections to be held in South Africa tomorrow

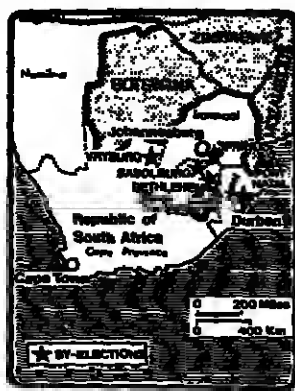
Botha braced for white backlash at the polls

SOUTH AFRICA, for all its sins, is still a parliamentary democracy of sorts for the white minority and for that dwindling minority of coloureds and Indians who supported the tri-cameral constitution by exercising the right to vote for their separate chambers in August 1984.

While this remains the case, the speed of change and reform in South Africa depends ultimately on what the National Party (NP) Government believes the electorate will support. It is a point often underestimated by the world at large which is pressing for the abolition of apartheid and prompt negotiations for the establishment of a multi-racial democracy.

But it is never far from the minds of President P. W. Botha whose NP has ruled South Africa since 1948 and which holds 122 seats in the 178 seat white House of Assembly. Tomorrow the NP is fighting to maintain its hold over five parliamentary seats in widely scattered by-elections where it is facing a determined challenge from the two main extreme right-wing parties—the Conservative Party (CP) and the Herstigte Nasionale Party (HNP)—and, to a lesser extent from the left of centre Progressive Federal Party (PFP).

Seldom, if ever, has the white, predominantly Afrikaner electorate been as troubled or confused as the present. After giving Mr Botha a 66 per cent yes vote in the referendum on the new constitutions in November 1983, whites have



witnessed the collapse of diplomatic hopes of a new relationship with black Africa after the Mkomoti accords with Mozambique. They have also seen violent protests against the constitution leading to a state of insurrection in black and coloured townships throughout the country.

The external value of the rand has virtually halved over the last 18 months, inflation and unemployment have reached record highs, foreign bankers have refused to roll over credits.

Calls for sanctions and other foreign pressure on South Africa and overseas reactions to graphic, uncensored reports of police and community violence in the townships have left South Africans feeling unloved and misunderstood.

To top it all, the very same party which swept to power on a platform of Afrikaner nationalist fervour and proceeded on a

twin policy of raising the economic, social and political status of Afrikaners and erecting a system of racial separation has now switched to a policy of apartheid reform and negotiated change couched in terms which confuse many South Africans as much as foreigners. It is a situation which has all the ingredients for a massive white backlash at the polls which not only threatens the five by-election seats but would sap the already shaken authority and confidence of the Government and turn hitherto NP strongholds into tenuous marginals.

It would add to the already growing pressure for the resignation of President Botha, put the reform policy on a back-burner and increase the tempo of the military and the technocrats.

But will it happen? At the very least the Government is resigned to a massive reduction in its majorities in the five seats—Port Natal in Durban, Vryburg in the northern Cape, Springs in the Transvaal, and Sasolburg and Bethlehem in the Orange Free State.

Its chances of holding on depend on divisions among the opposition is the remaining reserves of loyalty to the NP and the common sense of those whites who accept the need for South Africa to change with the times.

In Port Natal the opposition vote will be split four ways between the CP, the PFP, the New Republic Party (NRP) and an independent.

In Vryburg rivalry between

THE South African Institute of Race Relations has just published its mammoth 991-page 1984 survey of South Africa which, amidst a treasure trove of statistics and analysis, shows that the population of South Africa, including all the homelands, is now 32.6m.

This is nearly 6m more than the official figure of 26.7m, which excludes the

5.8m people living in the four 'independent' homelands of the Ciskei, Transkei, Bophuthatswana and Venda.

On the Institute's figures blacks make up 74 per cent of the population and whites 15 per cent, against official figures showing 68 black and 18 per cent white with the remainder being Coloureds and Indians.

the two right wing parties, the CP and the HNP, means that it could still hold the seat on a minority basis although the right wing parties are expected to pick up more votes between them than the NP.

In Springs, a former gold mining town, now a depressed industrial centre with high unemployment, the NP faces a three-way fight with the CP and the PFP. It hopes that PFP voters will vote NP tactically to ward off the strong CP challenge from disaffected English and Afrikaner blue collar workers.

Its main problem areas are Sasolburg, where it faces a straight challenge from the already entrenched HNP, and Bethlehem, a farming and light industrial centre in the heart of the once solid NP stronghold of rural Orange Free State, where it faces a direct challenge from the CP.

Sasolburg, the only Free State town to be included in the state of emergency, is the home of Sasol I, the original

sprawling oil-and-chemicals-from-coal plant, which is booming on the back of the depreciated rand.

Sasol, and associated chemical and explosives plants, provides 9,000 secure jobs and good job advancement prospects for black and white alike.

The black township of Zamdela, with its higher than usual proportion of owner-occupiers and company-financed facilities, has not shared the violence of nearby black communities like Parys or Sebokeng in the Vaal triangle across the Vaal River.

But Mr Willem Odendaal, NP candidate, admits to being a worried man while Mr Louis Sioberg, HNP candidate, exudes confidence that the white backlash will sweep him into parliament which he left in 1969 when the HNP split from the NP over multi-racial sport.

The loss of Sasolburg would set alarm bells ringing, its retention will keep 'reform' on the road.

Cape Town meetings banned

BY OUR JOHANNESBURG CORRESPONDENT

SOUTH AFRICAN authorities have followed up last Friday's extension of the State of Emergency to eight magisterial districts in the Cape Town area with a ban on the meetings of 113 organisations in the affected areas.

Most of the organisations are affiliated to the United Democratic Front (UDF), the anti-apartheid umbrella organisation, but also include the Moslem fundamentalist organisation Qibla which has been active in the largely Moslem coloured (mixed race) communities of the Western Cape in recent weeks.

Police also arrested a reporter from the Cape Times, who was covering a meeting in Elsies River, a coloured community included un-

der the emergency regulations. He will be charged later.

The arrest follows a police ban on journalists entering Soweto near Johannesburg which is expected to be followed shortly by the announcement of further restrictions on press and television reporting. President P. W. Botha is due to speak at a dinner organised by the Foreign Correspondents Association on Thursday.

Police headquarters in Pretoria said that new regulations had not yet come into force but referred to the original emergency regulations issued on July 21.

Shortly after the State of Emergency was declared, Gen Johan Coetzee, Commissioner of Police, told journalists that these blanket

regulations would be held in abeyance for the time being.

Since then, however, the police and the Government have been severely embarrassed by foreign newspaper and television coverage of violence and police/army repression in the townships which the Government blames *inter alia* for contributing to the foreign bankers' decision to cease rolling over short-term loans and the mounting pressures for sanctions.

This has led to increasingly strong attacks on the foreign and local press in recent weeks accompanied by the expulsion of a Newsweek correspondent, restrictions on the entry of foreign journalists and long delays in renewing work permits for correspondents.

China closes 9,000 illegal businesses

BY ROBERT THOMSON IN PEKING

CHINESE AUTHORITIES have shut down almost 9,000 enterprises illegally run by Communist Party and government officials so far this year. The crackdown is designed to stop the image of China's economic reform package from becoming tarnished by corruption.

Officials are banned from taking advantage of their positions in running a business. Although the Chinese media carries almost daily accounts of high cadres who abused the privileges of power by dipping into the 'ill or manipulated' contracts through *Guanxi*, meaning 'connections'.

An official of the Enterprise Registration Office told the China Daily newspaper yesterday that an investigation conducted by his office showed 67,041 party and government officials were involved in business dealings and that 90 per cent of them have since withdrawn from those activities.

"The unhealthy practice of party and government affiliates starting businesses has basically been checked and corrected," the unnamed official said. His assessment

is contradicted by the daily media reports to the contrary.

In Peking, the investigation found that 231 enterprises, ranging from such things as tea houses to furniture stores, had been started by party or government officials. Sixty-four of those businesses have been forced to close and 157 others have been required to transfer the ownership of the business.

The state industrial and commercial administration bureau has also compiled a report on the subject, according to the China Daily, and found that most of the cadres involved had made no distinction between state administration and business administration, and used 'their powers to seek illegal profits'.

The report gave examples of a trading company, run by officials which charged customers for colour television sets and cars that were never delivered. It also documented several cases of party members establishing a company board, and granting themselves hefty payoffs from the company's funds.

Ethiopia's 1986 food problem 'manageable'

BY MICHAEL HOLMAN IN LONDON

ALTHOUGH 5.8m people will need food aid in Ethiopia in 1986, the problem will be manageable provided donor support is sustained, Mr Kurt Jansson, the UN Assistant Secretary-General who has been in charge of relief operations in the country, said yesterday.

Mr Jansson, who is leaving his post in the Ethiopian capital of Addis Ababa, was speaking at a London press conference where he reviewed the outcome of a massive international aid effort which has sent food and other aid worth more than \$1bn since October 1984 and regularly fed 8.5m people. By the end of 1985, 1.3m tons of food will have arrived for famine relief.

At the peak of the crisis last March, the population in and around relief camps was 1m. Today, the camps are supporting only 68,000, said Mr Jansson. Although some areas of the country have enjoyed better rains, displaced farmers, without oxen, seed and implements had not been able to take advantage of them, and Ethiopia would need aid through 1986.

Estimates of food aid required next year vary between 800,000 tons and 1.2m tons. The final amount will depend on the size of the last harvest, for which returns are still being assessed.

The U.S., which provided 38 per cent of food imports this year, has already pledged one third of 1986 food needs, while the EEC is expected to supply between 20 and 25 per cent, and Canada, 13 per cent. The balance will come from Australia, from bilateral commitments from European countries, and a comparatively small amount from socialist states, said Mr Jansson.

Mr Jansson urged Western governments to support the Ethiopian Government's controversial programme to resettle upwards of 1m people, moving them from the worst-hit drought areas of the north to better land in the south and south-west.

Britain, the U.S. and several other governments have been critical of the programme, arguing that there is coercion and that it is mismanaged.

Mr Jansson criticised the scheme, under which some 500,000 people have already been moved, as 'poorly planned' but he said that unless it was supported 'there is a risk of failure' with serious repercussions for the people already moved.

Arafat in bid to save Jordan-PLO peace plan

By Walter Ellis in Tel Aviv and Our Middle East Staff

MR YASSIR ARAFAT, chairman of the Palestine Liberation Organisation, arrived in Amman yesterday for critical talks with King Hussein of Jordan on the future of the Joint Middle East Peace Initiative.

The agreement reached by the two leaders on February 11 has come under severe strain in recent weeks as a result of the PLO violence in the region and the cancellation of planned talks with the British Government.

Ahu Jihad, Mr Arafat's top military aide, said in Amman yesterday that he was confident that the agreement with Jordan would survive the present crisis.

"We believe we have a solid base to continue our co-operation and to preserve the Jordanian-Palestinian accord," he said. However, King Hussein has not attempted to hide his anger at PLO tactics and blamed the organisation directly for the failure of the London talks. At the same time he has found positive aspects in recent speeches by Mr Shimon Peres, the Israeli Prime Minister, who has been urging the King to enter into direct bilateral negotiations.

Mr Peres consolidated his new-found political strength yesterday when he broke a right-wing Cabinet rebellion aimed at the heart of his current initiative on peace with Jordan. Several ministers belonging to the Likud bloc in the Knesset had attempted at an inner Cabinet session late on Sunday night to force Mr Peres to recant on his willingness to participate in an international peace conference.

Mr Yitzhak Shamir, the Likud leader, declared that Mr Peres had not strayed from coalition thinking on the peace process.

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UK NEWS

Industry may get cut in electricity costs

BY DAVID THOMAS AND MAURICE SAMUELSON

THE CENTRAL Electricity Generating Board (CEGB), has put a proposal to the Government which would mean cheaper electricity for large industrial energy consumers.

The basis of the idea agreed with the National Coal Board (NCB) was first devised last year, but the final details were put to Mr Peter Walker, Energy Secretary, after meetings held under the auspices of the National Economic Development Council. These meetings took place after the chemicals economic development committee had complained to the April NEDC about overseas competitors having access to cheaper energy.

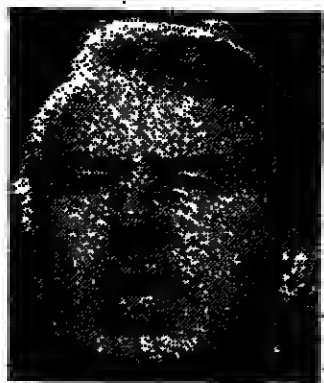
The proposal would mean that large industrial consumers would pay a price for their electricity that would reflect only the marginal cost of producing coal at modern pits - at present about £29 a tonne.

The scheme would only apply to individual sites that consume more than 100 million kilowatt-hours a year. They would receive any electricity consumed above this cut-off point at a new cheaper rate.

A confidential CEGB paper estimates that about 60 sites, accounting for some 7 per cent of electricity consumption, could be eligible.

About 5m tonnes of NCB coal might be involved each year.

Industries likely to benefit include chemicals, steel, cement and



Mr Peter Walker

paper and board. Leading companies in this sector have provided the Government with specific examples of how the proposal, if agreed, might help them to preserve or increase capacity.

According to a confidential note prepared for the Energy Secretary, Pilkington, for instance, has said that the scheme, if it applied fully to it would allow it to introduce new technology in its St Helens sites and increase electricity demand there by between 50 per cent and 400 per cent by 1993. Without some change in pricing arrangements, Pilkington says that such investment would not be considered in the UK.

ICI has made a similar point to the Energy Secretary about investment at its Billingham fertiliser plant, in north-east England.

The proposed scheme is designed to increase electricity and coal demand, and improve the competitiveness of the eligible companies. In the long run, it is designed to place no extra cost on the Treasury, but NCB revenues might be hit in the first year by about £50m.

At a meeting with the CEGB and large industrial users in the summer, Mr Walker said that he would need to seek the support of his ministerial colleagues.

Mr Ivor Manley, deputy secretary at the Department of Energy, is understood to be co-ordinating the discussions that resulted from the meeting with Mr Walker. Senior civil servants at the Treasury, Trade and Industry, and Employment departments are also involved.

Some of the financial obstacles to the cheap power deal are expected to be partly overcome as a result of the annual review of NCB coal prices.

Although no details have yet been announced, it is expected that any increase will be modest and reflect the downward pressure both of world coal prices, expressed in dollar terms, and the increasing efficiency of the NCB.

Minister refuses to list MPs involved in immigration row

BY KEVIN BROWN

MR DOUGLAS HURD, Home Secretary, is to make a statement to the House of Commons today, on the immigration row sparked off by his junior minister, Mr David Waddington.

The statement follows intense pressure from opposition MPs, at what amounted to an instruction from Mr Bernard Weatherill, the Speaker (chairman) of the Commons.

Mr Waddington angered the opposition by alleging during Home Office questions last week that unnamed Labour MPs were abusing the system under which overseas visitors refused permission to enter the UK are allowed in after representations from Members of Parliament.

Mr Roy Hattersley, the deputy Labour leader, was among senior opposition MPs who interpreted these remarks as an attempt by the minister to shift attention away from his earlier controversial suggestion that racial discrimination could be eased by positive discrimination in favour of blacks in public sector contracts.

Mr Waddington tried to defuse the issue yesterday by releasing the text of a long letter to Mr Gerald Kaufman, Labour's home affairs spokesman, detailing six forms of alleged abuse by MPs, and suggesting talks on modifications to the system.

The letter said the number of cases in which representations had

been made by MPs had increased from 1,000 in 1980 to some 5,000 in the first 10 months of 1985, and put this year's bill for repatriations at £1m.

Mr Waddington declined to name the MPs involved, however, on the grounds that his allegations were based on confidential correspondence sent to the Home Office.

This view was rejected by Labour MPs, particularly those from constituencies with large immigrant populations.

Mr Kaufman told MPs: "These allegations involve grave issues touching on the honour and integrity of MPs. It is incumbent on the minister either to substantiate his allegations or to resign."

He said the row could not be settled by "some kind of private fix between the minister and myself." He told Mr Waddington: "You have made allegations to the House about unnamed MPs. It will not do for you to say you are faced with procedural problems."

Mr Waddington told him: "I am happy to discuss the matter with you if you wish to press for names. But I suggest you read my summary and then consider whether it is necessary to raise this matter again."

He added: "I would not have been in a position to make the allegations, and I would not have made them, had I not been in a position to identify particular cases of abuse."

Mr Kaufman was backed from the Labour front bench by Mr Alan Williams who said Mr Waddington should have taken advice about the implications of his remarks before making them.

"It is the responsibility of every member of this House to make sure that we preserve the reputation of the Commons. It is a serious matter when a minister makes allegations about abuses of power by MPs."

Mr Waddington was supported by a number of Conservative MPs, including Mr Eric Forth who said there were cases in which overseas visitors who failed to persuade one MP to take up their case had simply gone to another to obtain satisfaction.

But a series of Labour MPs concerned with immigration matters insisted there had been no abuses. These included Mr Clare Short, Mr Jeremy Corbyn, Mr Alf Dubs, Mr Laurie Pevitt and Mr Andrew Faulds.

As the row rumbled on Mr Weatherill attempted to cool tempers by reminding MPs that every member of the Commons had to take responsibility for his or her own actions.

Mr Michael Foot, the former Labour leader, insisted, however, that MPs had a right to question the Government about the allegations. In view of Mr Waddington's response, the Home Secretary should come to the Commons to make a full statement, he said.

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Scargill defeated on court contempt issue

BY JOHN LLOYD, INDUSTRIAL EDITOR

MR ARTHUR SCARGILL's leadership of the National Union of Mineworkers (NUM) was successfully challenged from the left yesterday when the NUM national executive voted 11 to 7 to purge its contempt of court in an attempt to regain control of its £8m of funds.

The funds were sequestered by the High Court after the union failed to pay fines imposed for contempt of court during the year-long miners' strike.

Mr Scargill, who has insisted that NUM conference policy was not to purge the union's contempt, was beaten after a long and vigorous argument.

Leaders from three key left-led areas - South Wales, Scotland and North Derbyshire - sided with the centre and right to ensure that Mr Scargill, and the two other NUM national officials, Mr Peter Heathfield, the general secretary, and Mr Mick McGahey, the vice-president, should do all that was required to regain control of the money in scheduled court cases. The first of these will be on November 14.

This alliance of left and right has emerged after a long period in which leaders like Mr Emylyn Williams and Mr George Rees of South Wales, Mr Eric Clarke and Mr George Bolton of Scotland, Mr Gordon Butler of North Derbyshire and Mr Denis Murphy of Northumberland, have become alarmed over the conduct of the union's affairs.

It is the first time that such an alliance has pushed an issue to a vote within the executive since Mr Scargill became president in April 1982 and it shows a new will to control his leadership.

The executive passed two motions. The first, passed unanimously, was for it to attend the November 14 court hearing when the NUM will seek the lifting of the sequestration order. The second, passed by 11 to 7, was for the union to purge its contempt.

Mr Scargill attempted to take up the first motion as an alternative to the second. He argued that the executive would be in a position to determine whether or not it could accede to the judge's conditions for lifting the union's receivership.

without making a prior commitment to purging the contempt.

Neither Mr Scargill nor others at the executive meeting made the argument with great force. The burden of argument, from the majority, was that grass-roots pressure was mounting for the union to regain control both of its funds and of the situation in the coalfields.

Those supporting Mr Scargill included Mr Jack Taylor and Mr Brian Dakin for Yorkshire, Mr Billy Stobbs from Durham, Mr Billy Etherington from the Durham Craftsmen, Mr Jim Colgan from the Midlands and Mr Wes Chivers from Kent.

With the exception of Mr Taylor, these men are all "new left" members of the executive who have come on to the national scene after Mr Scargill's rise to the presidency.

Unity was re-established at a special delegate conference in London which followed the executive meeting. The delegates agreed to continue the campaign for the reinstatement of the 615 miners who remain sacked eight months after the end of the strike.

The NUM is to mount a mass lobby of parliament to bring the plight of the dismissed miners to the attention of MPs and of the country. It will ask the Trades Union Congress and the Labour Party to join in the lobby.

Mr Scargill, speaking after the executive meeting and the conference, made it clear that he disagreed with the executive's vote. He said: "My personal position is well known. It is my job now to reflect the decisions of the national executive."

It is not clear what conditions the judge, Mr Justice Nicholls, will put upon the lifting of the sequestration. The NUM is expected to argue that the original case which led to the sequestration has now been lifted; that the original fine of £200,000 has been paid; that the union has suffered more than £1m loss in legal fees and has thus suffered enough.

The judge may seek a full apology, either from Mr Scargill or the national officials, all of whom were NUM trustees when the contempt was incurred.

Guinness Peat makes £212m Britannia bid

BY DAVID LASCELLES, BANKING CORRESPONDENT

GUINNESS PEAT yesterday sought to create a new UK financial conglomerate with a £212m bid for Britannia Arrow, the banking and investment group in which it already holds 28 per cent.

Britannia's board immediately rejected the offer as "wholly inadequate" and against the best interests of the shareholders and employees. Sir Geoffrey Rippon, the chairman, will be writing to shareholders strongly recommending them not to accept it.

Guinness Peat, which owns the Guinness Mahon merchant bank and has wide-ranging interests in insurance, finance and property, is offering Britannia shareholders a choice of shares worth 140p or 130p a share in cash, which it claims is 40 per cent more than Britannia's net assets at the end of 1984.

Britannia's shares closed last night on the London Stock Exchange at 140p, up 8p on the day but down from the day's high of 144p. There was strong speculation in the stock market that the offer would be increased or topped by a counter-bid.

The takeover bid marks the culmination of a drive by Mr Alastair Morton, Guinness Peat's chief executive, to transform the once ailing company into a broadly based financial services group. If it succeeds, he intends to develop the combined entity around four businesses: insurance broking, life assurance, fund management and investment banking.

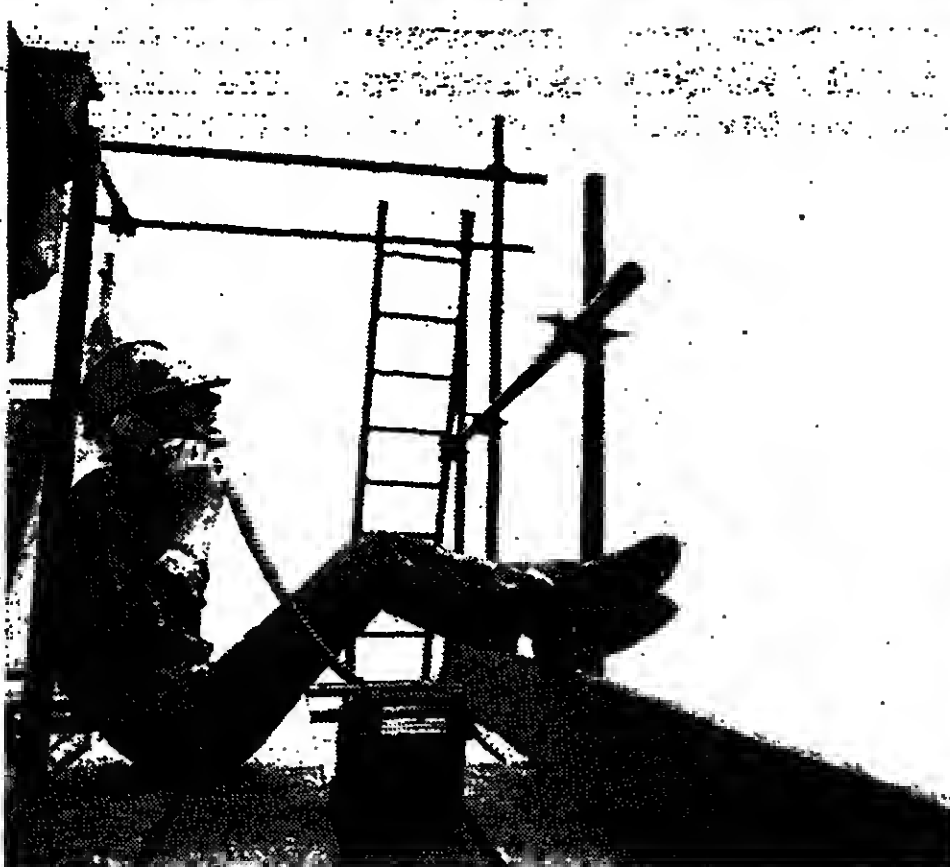
The offer says that Britannia's asset management and life assurance business would fit well with Guinness Peat's investment banking operations. The combined group would enjoy "substantial financial benefits," was well as the opportunity to shelter taxable profits in both the U.S. and the UK because of Guinness Peat's earlier losses.

The terms of the bid take special account of Singer & Friedlander, the accepting house acquired by Britannia only last year.

In the first six months of this year, Britannia made profits of £10.1m pre-tax compared to £14.1m for the whole of 1984.

Lex, Page 18

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UK NEWS

Treasury asked to back fund for Eureka work

BY GUY DE JONQUIERES

THE DEPARTMENT of Trade and Industry (DTI) plans to seek Treasury approval for a special contingency fund to help finance Eureka, the proposed European programme of collaboration in high technology. This appears to signal a shift in the Government's position. It has said until now that while it would be ready to contribute to the cost of Eureka, the money must be found out of its existing technology support schemes.

Mr Geoffrey Pattie, Minister for Industry and Information Technology at the DTI, said in an interview that he hoped a contingency fund could also help maintain in real terms the value of the department's overall spending on science and technology support.

He declined to say how much extra money he would seek, but said it would be "within the bounds of good housekeeping." On present trends, the value of the Department's annual support will plateau in nominal terms and fall in real terms from next year. In the 1984-85 financial year it rose to £376.4m from £332.5m the previous year.

According to the DTI's annual Science and Technology Support Report, published yesterday, aid to industry, chiefly through the Support For Innovation (SFI) scheme, amounted to £239.2m last year. That was 64 per cent of total spending, slightly more than the previous year.

The report says that of the world's five leading industrial countries, Britain devotes the smallest proportion of its gross domestic product to civil research and development (R&D). "This disadvantage in quantity is not offset by any generally greater effectiveness of R&D in Britain," it says.

It says that understanding of key technologies is often inadequate, and Britain's training and education system meets the needs of industry less effectively than in other countries.

Mr Pattie said that Britain's method of controlling public expenditure and split responsibility between different Government departments meant that it had much less flexibility than countries such

as France in raising funds for Eureka and similar projects.

"We tend to be cautious, looking thoroughly to see if it's a valid concept, and then find there's little money available in the current year," he said. "Our EEC partners are not as hidebound by departmental divisions as we are."

Mr Pattie remained adamant, however, that the initiative for collaboration in Eureka must come from private industry. "It is not for governments to say that company A must make love to company B," he said.

He also said that direct government intervention could do little to ease industry's problems while many world high technology markets were suffering from weak demand, excess capacity and fierce price cutting. "Many companies are trying to sell in over-stocked markets," he said.

Science and Technology Report 1984-85, Department of Trade and Industry, 1 Victoria Street, London SW1H 0ET.

Air fares warning after fuel price rises

By Michael Donne, Aerospace Correspondent, in Hamburg

BRITISH AIRLINES are worried about the effects of sharp increases in fuel prices. They have given a warning that the rises could jeopardise efforts to reduce air fares.

Mr Colin Marshall, chief executive of British Airways, said at the annual meeting of the International Air Transport Association (Iata) in Hamburg that one rise in the recent past, together with another to become effective from November 1, had already put 10 cents on to the price of every gallon of fuel bought at London (Heathrow), with smaller increases at other airports overseas, including the US. His airline had been told that it would face a further rise soon, and possibly another one before the end of the year.

"This means that British Airways will face another £45m to £50m on its fuel bills in a full year," he said. "If the further rises are implemented by the oil companies the rise in our costs would be such that we would have no alternative but to pass these fuel price rises on to our passengers in higher fares, with all that means for our campaigns in Europe to get our fares down."

Mr David Coltman, managing director of British Caledonian (BCal), confirmed that his airline had also paid more for its fuel in the recent past in the UK, Europe and Africa, but not so far in the US. He thought further increases were on the way which would add substantially to BCal's costs. Mr Michael Bishop, chairman of British Midland Airways, said his airline had also experienced price increases.

Other world airlines are so far reluctant to comment as openly as the British airlines on fuel prices, but it is understood that some of them have experienced similar increases and that the pattern is more widespread than they are prepared to admit.

Mr Marshall said that there appeared to be no rational explanation for the oil companies to put up prices so suddenly and steeply at a time when the trend had been for prices either to decline or to stabilise. "Since there is no shortage of crude oil, we are led to ask publicly what is going on," Mr Marshall said.

The 10 cents a gallon increase at Heathrow was the biggest so far. At other airports worldwide served by British Airways the increases ranged between 4 cents and 8 cents a gallon with an average of about 6 cents.

Mr Marshall said that British Airways had notified the UK energy secretary about the situation, but no government intervention seemed likely. Both British Airways and BCal - the UK's main international flag airlines - are concerned that these actual and potential fuel price rises could jeopardise the entire campaign conducted over recent years by the UK Government and airlines to cut fares, especially those in Western Europe.

UK airlines and the Government are at the centre of efforts to increase liberalisation of air transport in Western Europe and bring down fares. Mr Marshall said British Airways was convinced of the need to be more receptive to consumer needs, and to make a positive response to the EEC initiatives for a more liberal and flexible European air transport system.

At a recent meeting in Brussels of the Association of European Airlines to discuss more liberal fares policies, British Airways was in disagreement with most other European airlines, and was unable to persuade them either of the need to react more positively to what customers wanted or to the ideas which had been put forward by the European Commission itself.

Tory MPs criticise gas privatisation

BY MAURICE SAMUELSON

THE GOVERNMENT'S programme for privatising the gas industry will defeat its real purpose of raising its competitiveness, says a scathing report on its energy policy published last night by the Bow Group, a Tory parliamentary pressure group.

The proposed privatisation of British Gas seems more likely to result in a "non-competitive structure" with few commercial constraints over its management, says the paper's author, Mr Rodney Atkinson, a former merchant banker who is secretary of the group's energy committee.

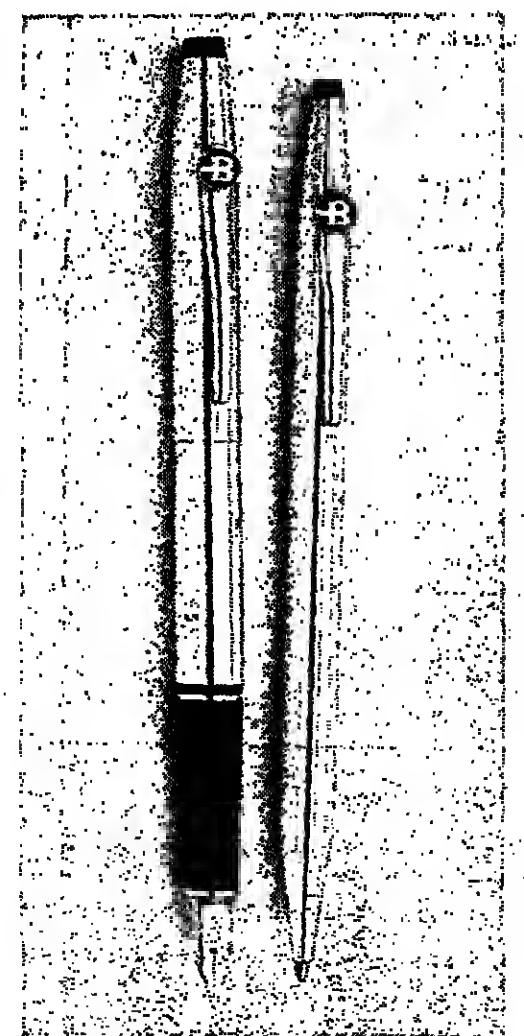
The report, *The Energy Policy Mess*, is sharply critical of the fact that the gas industry will retain its monopoly status after privatisation. It says that, ideally, the corporation should be split into three separate parts. Offshore production interests should be auctioned, the gas grid should remain a public-sector utility, and the regional boards should become separate and competing commercial companies with no restrictions on their commercial activities in other energy sources.

The report proposes safeguards aimed at preventing exploitation of consumers, minimising distortions in the energy market and providing incentives and discipline for the gas corporation. Its key proposal, for what it calls "a marketised structure," is that, instead of merely establishing a board to regulate the gas industry's operations, the Government should establish an office which would regulate the other state energy industries with which the privatised gas industry will compete.

The regulating office would also prevent manipulation of energy prices by the Government as a means of raising revenue for the Exchequer or, by suppressing prices, buying votes at a general election.

The report argues that a monopoly, even in private hands, would continue to exploit consumers, and waste national assets. As a result of its monopoly purchasing power, British Gas had paid low prices for domestic producers and high prices for foreign (Norwegian) producers.

The Energy Policy Mess, by Rodney Atkinson, Bow Publications, 249 High Holborn, London WC1, £4.95.



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UK NEWS

Private sector pay awards run at 7.8%

BY PHILIP BASSETT, LABOUR CORRESPONDENT

PAY INCREASES in the private sector are outstripping those in the public sector, according to government figures published today. But absolute pay levels are still higher in the public sector.

Private-sector pay rose by 7.8 per cent in the year to April 1985, according to the Government's New Earnings Survey (NES), while public-sector pay rose by 6.4 per cent. Pay across all industries and services rose by 7.2 per cent.

Caution needs to be exercised in interpreting the NES figures for public-sector pay because of the abnormally large number of delayed or multiple settlements - the NES includes details of these for the first time. But the figures do show a continuing imbalance between pay in the public and private sectors.

Within the overall figure for public-sector increases, nationalised industry employees have done best with rises of 7.5 per cent, with 8.9 per cent in central government and 5.7 per cent in local government.

The level of increase within the public services shows how extensively the Government's cash limit target of 3 per cent pay rises has been breached. The Government is not publishing such a figure for this year's pay round.

While private-sector pay has been rising faster, its absolute levels at the time of the NES survey - a "snapshot" of pay across the economy in one week in April - are still below those in the public sector.

For all male and female, manual and non-manual earnings, average private-sector pay was £170.30, while pay in the public sector was £172.10. The average across all in-

MALE MANUAL EARNINGS - TOP 10

	April 1985
Chemical process foreman	240.50
Electrical installation foreman	231.40
Engineering machine foreman	221.50
Continuing deposits metal making/treating foreman	218.50
Electrical power plant operators	214.30
Printing machine minders	208.40
Metal pipes foreman	205.80
Product inspection foreman	205.80
Transport foreman	204.50

Industries and services was £171. Pay in central government was lowest, at £154.30.

Figures for average male manual earnings - often used to denote the "average wage" in the UK - were £153.00. Comparable figures for non-manual employees showed average earnings of £225.

Pay for the top 10 manual jobs showed little change from last year, with foremen still predominating. Of strictly manual jobs, crane drivers - among last year's 10 highest - showed hardly any increase at all, with a rise of only £1.10. Chemical operators and gas fitters are now just outside the top 10 earners, with £203.40 each.

Miners are now back in the NES listings after the strike, but at the time of the NES the mineworkers had not completed their pay negotiations, putting them outside the 10 highest earners.

Engineering union rejects 3.95% offer

BY DAVID THOMAS, LABOUR STAFF

UNION LEADERS representing 1m engineering workers yesterday rejected an offer of 3.95 per cent on the national minimum rate made to them by the Engineering Employers' Federation.

They indicated that they were seeking a substantial pay rise above the 6-7 per cent level, but Dr James McFarlane, EEF director general, referred to high labour costs in Britain when he made the employers' offer.

He said: "Productivity is improving, but the rate of improvement is still not enough to catch up with, let alone overtake, our overseas competitors."

Rejecting the offer, Mr Ed Scriven of the engineering union, AUEW, said: "We are disappointed at the meagreness of the offer,

against the background of the rate of inflation."

He said the offer would raise the national minimum rate for a skilled worker, rising by £3.80 a week to £100. Individual companies can set rates above the national minimum.

The EEF rejected the three other elements in the unions' four-point claim: for the adult rate to be paid to workers at age 18; for overtime payments to be calculated on the basis of pay rates set by individual companies; and for an additional payment to certain skilled welders.

The union's claim to the EEF usually includes working hours and holidays, but these have been excluded this year because they are being discussed in a separate negotiating committee. The two sides will meet again next month to continue pay talks.

Ramphal clashes over group for S. Africa

BY ROBERT MAUTHNER, DIPLOMATIC CORRESPONDENT

THE BRITISH Government and Sir Sonny Ramphal, the Commonwealth Secretary-General, yesterday clashed over the composition of the Commonwealth group of "eminent persons" which is due to be appointed to help promote a dialogue between the Pretoria Government and South Africa's black community.

Mrs Margaret Thatcher, the Prime Minister, who fought off demands from Britain's Commonwealth partners at last week's heads of government meeting in Nassau to agree to comprehensive economic sanctions against South Africa, continues to feel strongly that the group should include some serving government ministers. Sir Geoffrey Howe, the Foreign Secretary, is London's preferred candidate, though other names are also being considered.

Mr Thatcher believes that only if the group includes at least a certain proportion of serving ministers, will it have sufficient weight to have any influence on the South African Government, officials said.

That is clearly not the opinion of Sir Sonny, who took a completely opposite line in a speech yesterday at United Nations headquarters in New York in honour of Bishop Desmond Tutu, the Anglican Bishop of Johannesburg. The Commonwealth leaders' conference in Nassau did not envisage an inter-governmental exercise, Sir Sonny said.

"The understanding in the Bahamas was that this is to be a group of independent persons acting in their personal capacities on behalf of the Commonwealth as a whole. They cannot be government representatives because no one of them will represent a particular government."

Mrs Thatcher, already intensely irritated by the role that Sir Sonny played in orchestrating the campaign in favour of economic sanctions, is reported to feel that the Commonwealth Secretary-General is again exceeding his powers.

"The membership of the group is not in the gift of the Commonwealth Secretary-General," British officials emphasised. The decision lay with the governments who had been named in the Commonwealth Accord reached in Nassau to work out with the Secretary-General how the dialogue was to be organised - Zambia, Australia, Bahamas, Canada, India, the UK and Zimbabwe. Sir Sonny could not veto a candidate put forward by any of these governments.

Directors worried about economy

THE INSTITUTE of Directors yesterday added its voice to the heightened concern expressed by industrialists in recent weeks over the outlook for Britain's economy, Philip Stephens writes.

In its latest survey of business opinion the institute says that the number of members who are optimistic about the economy has fallen from more than half six months ago to only a quarter at the beginning of this month.

At the same time, 49 per cent of directors expressed dissatisfaction

with the Government's economic strategy, compared with 46 per cent two months earlier and only 28 per cent in mid-summer.

The survey comes a week after a similarly gloomy report from the Association of British Chambers of Commerce. Later today the publication of the Confederation of British Industry's latest industrial survey is also expected to show that high interest rates and the rebound in the value of sterling have severely dented business optimism.

The institute said the declining

confidence among its members reinforced its case for sizeable tax cuts in next year's budget to boost spending power and demand in the economy.

Mr Graham Mather, head of the institute's policy unit, said that despite the growth in corporate profits there was no doubt that businessmen were increasingly concerned by the prospect of growth faltering in 1986.

"Companies are expecting investment and export growth rates to weaken as tax allowances are

phased out and the effects of a stronger pound begin to filter through. This means that tax cuts in March are a necessity rather than a luxury," he said.

The survey does show, however, that companies have continued to do well over recent months despite their doubts over the future.

About 57 per cent of directors said that they were more optimistic about prospects for their own company than they were six months earlier.

BS gives warning over decline in ship orders

BY ANDREW FISHER, SHIPPING CORRESPONDENT

MORE YARD closures and job losses could occur at state-owned British Shipbuilders (BS) if the market did not improve after the deterioration in orders this year, Mr Graham Day, the chairman, said yesterday.

BS has told the Government that

new merchant shipbuilding business in the financial year to March 31 1986 was unlikely to match the 1984-85 total. "What we thought would bite us in 1986-87 has really started to bite us now," Mr Day said.

In the corporate plan handed to

the Government in July, BS said orders in 1985-86 should again total about 200,000 compensated gross tonnes, a measurement of both size and work content. But since BS made its forecasts the market has worsened.

Mr Peter Morrison, junior Indus-

try Minister, said yesterday: "British Shipbuilders now believes that it is unlikely to be able to win this level of orders."

The gloomier news about BS's order prospects comes at a time of growing concern among world shipbuilders.

Freight Rover plans Europe export drive

BY JOHN GRIFFITHS

FREIGHT ROVER, BL's panel van-making subsidiary, is to mount a substantial export drive within continental Europe from next year, according to Mr George Simpson, its managing director.

The decision reflects the fact that Freight Rover has increased its UK market share by 75 per cent since 1981, placing it second only to Ford. It feels that the scope for further substantial gains in the UK is limited.

Mr Simpson was speaking before the launch today of a revised range of its Sherpa vans. The changes include what is being claimed as a "world first" no commercial vehicles - springs made of plastic composites which are 80 per cent lighter than metal springs, producing a payload increase of 550lbs.

Freight Rover expects to have exported 1,200-1,300 vehicles by the

end of this year, out of total sales predicted to reach 17,500-18,000. This compares with just over 1,000 last year, out of a total of 16,500 sales.

Mr Simpson said there was now a significant need to build up a strengthened distribution network on the European continent.

Freight Rover's export sales - which are mainly in Spain - are handled primarily by associate companies of BL-ARG Espana in Spain and Leyland Vehicles Industries SA, the Leyland Vehicles distributor in France and the Benelux countries. Other countries are handled by independents.

While these arrangements were satisfactory, Mr Simpson said, Freight Rover was looking at "all possibilities" for expanding its continental networks. He did not exclude marketing joint ventures but did not identify possible partners.

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TECHNOLOGY

EDITED BY ALAN CANE

Peter Marsh on Natural Environment Research Council moves to make the most of its special aptitudes

Drive to
earn more
from
research

THE Natural Environment Research Council is under pressure to step up work with commercial potential as a result of cuts in government funding. In 1983-84, the council received a direct grant from the Department of Education and Science of £62m.

Sponsored research from other government departments, such as the Department of Energy, and from the European Community added £22m to the council's income. Contributions from industry and other organisations made up the remaining £5m of the £89m total budget.

Over the next five years, the council's income from the DES will decrease by 2 per cent a year, according to the assumptions in the body's corporate plan published in February. There is likely to be a similar fall in revenue from commissioned research from other government departments.

According to the corporate plan, over the next five years the council will have to reduce its staff of 3,130 by 800. It will have to spend a greater proportion of its income in grants to university researchers—this sum came to just £4.6m in 1983-84—and less on supporting the council-run research institutions such as the Institute of Terrestrial Ecology.

According to the plan, the council must try to increase the revenue it earns from applied research and development and recruit more staff concerned with this type of activity.

Among the research organisations maintained by the council are the Institute of Virology in Oxford, the unit of Comparative Plant Ecology at Sheffield University, the Reservoir Biological Association in Ambleside, Cumbria, the Marine Biological Association and the Institute for Marine Environmental Research, both in Plymouth, and the Scottish Marine Biological Association in Oban.

The council is also responsible for the British Antarctic Survey, which operates research studies in the Antarctic and neighbouring areas such as the Falkland Islands.

A WAY of using fungi to promote plant growth could prove popular with amateur gardeners and help develop desert areas of the Third World.

Scientists at the Institute of Terrestrial Ecology in Edinburgh have cultivated certain types of fungus that speed up the growth of trees and other vegetation. The workers are joining forces with Strathclyde University and the Agriculture Genetics Company (a government-backed group which seeks to commercialise inventions at Britain's Food and Agriculture Research Council) to develop applications for the fungi.

Studies at the institute have shown how to produce biological cultures of the fungi which can be implanted in soils to hasten the development of vegetation. The cultures are developed in laboratories and then transported to fields or plantations as an inoculum.

In soil, the fungi interact with roots of trees and plants to produce mycorrhizas, thread-like network which bring extra nutrients to the vegetation. According to Mr Robert Munro of the Edinburgh institute, which is one of 14 research

groups run by the Natural Environment Research Council, mycorrhizas could bring radical change in many agricultural practices.

Increasing growth rates by a factor of two or more by artificial impregnation of roots in soil could help plantations, particularly in infertile parts of the world. The mycorrhizas could also be sold through nurseries to gardening hobbyists. Other customers for the fungi may include local authorities and other organisations which want to see a quick growth of trees, for instance to cover waste tips in the shortest possible time.

Much of the work of the Edinburgh institute has been in identifying the type of inoculum needed to increase the development of particular species of vegetation. For commercial reasons, the institute is unwilling to identify its fungi, which can be grown either in a liquid or in a vermiculite peat.

Mycorrhizas, as scientists have known for decades, form a sheath-like structure around the roots of a tree or plant. Far from curbing development, the structures act as conduits which bring to the plant water and

nutrients such as phosphates. Mycorrhizas may also increase trees' ability to tolerate drought, high soil temperatures and abnormally high acidity.

The beneficial relationship between trees and the roots can be spotted easily enough on a woodland walk. Evidence that many trees are surrounded by the mycorrhizas comes from the fruit bodies such as toadstools which may emerge above ground.

Different trees are associated with different types of fungi. The job of the Edinburgh scientists was to find out how specific types of fungi influence the growth of particular trees such as pines, heath, birch, alders and willows whose development is known to be associated with mycorrhizas.

In recent work, the scientists in Edinburgh have paid special attention to increasing the growth of Sitka spruce seedlings in infertile soils.

The Natural Environment Research Council, which has an annual budget of about £90m (most of it from government sources), is anxious to increase the £5m or so it earns annually from consulting work in

industry. The council took space at a recent technology transfer exhibition in Birmingham to tell the world about its work.

Other examples of links between the council and the commercial world include:

● Pollution monitoring. Scientists of the Institute for Marine Environmental Research in Plymouth are designing instruments to monitor concentrations of organic and inorganic molecules in water. A particular type of instrument measures the electrical charge on organic molecules such as aromatic hydrocarbons, common pollutants of which benzene and phenanthrene are examples.

The hardware uses peculiar membranes made of lecithin—a substance belonging to a class of fatty substances called lipids. In the hardware, the membrane wraps around a mercury electrode. Because the lecithin has a high affinity for hydrocarbons, the membrane attracts hydrocarbons to the electrode which measures its charge.

The Water Research Centre, a set of laboratories run by Britain's water industry, is

among the organisations interested in the commercial possibilities of this work.

● Offshore surveying. In conjunction with the Harwell Laboratory, the British Geological Survey has conducted tests with instruments towed behind boats to measure the radioactivity of rocks on the sea bed. The instruments are modified scintillation counters that detect gamma rays.

The devices can detect tiny deposits of radium and other elements that may produce radioactivity naturally. Spotting such deposits may help scientists understand the geology of rock formations and guide them to mineral deposits.

In recent work on behalf of Geover, which runs a tin mine on the coast of Cornwall, scientists tracked the positions of rock formations and deposits by using its radiation counter to detect pitchblende, a uranium oxide ore often found in combination with the metal.

Another customer has been British Nuclear Fuels, which operates the Sellafield nuclear facility in Cumbria. The corporation asked the scientists to

survey the sea bed off Cumbria to check for radioactive deposits discharged from the nuclear plant.

● Underwater mapping. The council has signed an agreement with Marconi Underwater Systems, a subsidiary of GEC, which is to exploit a sonar system called Gloria. The system, developed at the council's Institute of Oceanographic Sciences in Godalming, has been widely used by the US Geological Survey in mapping the sea bed off California.

Marconi expects to make £5m a year from exploiting the technology in underwater surveys—for instance, to help companies identify oil and gas deposits—and will pay the council a royalty.

● Satellite searches. The British Geological Survey is involved in other work for oil and mineral companies in the interpretation of remote-sensing satellite data from the US Landsat vehicles. By spotting geological faults and other features, the satellite information can shed light on deposits of particular kinds of metals and other minerals.

Overdue exposure for the government's top photographers

Video & Film

BY JOHN CHITTOCK

PROFESSIONAL photographers often reckon—with some justification—that their role is undervalued. If civil servants sometimes believe that the work of government departments is likewise undervalued, it is a fair bet that professional photographers working in government are an unrecognised breed.

A small but impressive attempt to restore some of the balance was made in London last week with the opening of the Science Museum of an exhibition drawn from the work of government photographers. Organised with the help of Kodak's "Public Eye" runs until next January and then goes on a nationwide tour.

The extraordinary range of photography tackled by these backroom staff is exemplified by the equally extraordinary list of participating departments. Many of these are really so-called "fringe bodies," such as the British Antarctic Survey and the Unit of Insect Neurophysiology. Others, like the Ministry of Defence, which maintains the "biggest" of all photographic sections, with 346

people in a variety of units, are in the Whitehall front line. Although it opens at the Science Museum, the exhibition includes impressive examples of pictorial photography—ranging from Royal portrait painter Edward Hill to a classic press picture of the Downing Street cat on Number 10's doorstep. But it is the technical work of these professionals that is perhaps of greater national importance in the long run, even though it is least likely to receive accolades.

One of the largest photographic units, for example, is the one based at the Royal Aircraft Establishment at Farnborough. It uses many specialised techniques in investigating structural failures, design performance, even ergonomics. High speed photography and cinematography is fundamental to their work, with video and

other new techniques such as holography creeping in—the latter not only for non-destructive testing (it readily reveals stress patterns), but also for producing 3D pictures.

One unusual photographic application at Farnborough employs a so-called periphery camera—based on the old idea of the panorama camera once used for the school group photograph. This uses a slit shutter to allow the object to rotate during one continuous exposure. The resultant picture can "unroll" a cylindrical view for instance of a gear wheel or, more typically, a cracked burner in a jet engine, making 360 degree inspection easy.

There is also a dash of adventure in some of the work on show, such as an image intensifier photograph taken at night by HM Customs and Excise. This captures the moment of arrest when two drug smugglers were caught in a car park. Much work of this kind is used as courtroom evidence, exemplified by another intriguing picture of a stonemason chipping open a huge imported tombstone and uncovering a hidden compart-

ment containing one kilo of heroin.

Predictably, high speed photography crops up in many scientific and industrial applications. The National Institute of Agricultural Engineering has on display one example which is eye-catching enough to grace the cover of the institute's brochure—a photograph of spray from a nozzle. The dispersal characteristics of chemical sprays are obviously important in agricultural studies, and offer a classic use for high speed photography.

For all the special techniques now available—such as thermography (to reveal tiny temperature differences), photoelasticity (where mechanical stress shows up as colour fringes), and contrast control (to detect almost invisible details)—the essence of applied photography is in its value as an instant recording medium.

One idea—elegant in its simplicity—is now in routine use at the National Physical Laboratory, which faced a productivity problem in checking the calibration of thermometers. This was being done visually, one

thermometer at a time, because of the need for instant correlation of a number of parameters against set conditions. The photographic department suggested, instead, the use of a large format (10 x 8 in) Polaroid camera, which enables as many as nine thermometers at a time to be recorded, an efficiency increase of 800 per cent.

Simplicity, though, is not enough. With another colour photography technique the photographers at the Royal Greenwich Observatory have demonstrated the importance of a thorough technical background in camera media. The very long exposures necessary in astronomical work cause the three main emulsion layers of colour film to respond unequally (a phenomenon known as reciprocity failure) and that gives rise to distorted colour rendering. No ordinary snapshot would know this, or how to solve the problem by making three separately controlled exposures through appropriate filters on to black-and-white plates—so-called separation negatives.

Despite such expertise, professional photographers—and perhaps especially those in government service—constantly face a status problem. For all their technical education, often combined with considerable creative talent, they are an underprivileged lot. This is reflected starkly in the civil service pay grades. Significantly, the individual photographers are not credited in the exhibition. The public will never know the name of the person responsible for the beautifully lit and composed portrait of Edward Hill, nor whose hand was behind the lens of an RAE vacuum tube picture which would grace the walls of any Mayfair art gallery.

As one government photographer complained to me: "There has been a downgrading of photography (in government)—it's called a service."

It is perhaps a general malaise in the photographic profession, not helped from the start when Kodak's founder, George Eastman, coined the phrase: "You press the button, we do the rest." Or, to misquote a famous aphorism, any fool can take a photograph—and a great many do.

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DU PONT has gained a new customer for its Surlux lower resin packaging material. The product has been adopted by Societe SVEM, a big French packaging company whose customers include Black & Decker, Calor and Thora-ESU, whose light bulbs SVEM packs.

The resin, which Du Pont supplies as a raw material, is used to pack anything from garden sprinklers to spanners or screwdrivers.

Although the resin costs about the same as a square metre of PVC, it is claimed that it is easier to use, has a higher heat absorption rate than traditional skin packaging materials and seals reliably over a broader temperature range, as well as having other properties which make for production and marketing economies.

ICI looks
into liquid
crystals

ICI'S RESEARCH laboratories in Runcorn are joining forces with scientists at Manchester University to investigate new applications in data storage and displays for liquid crystals.

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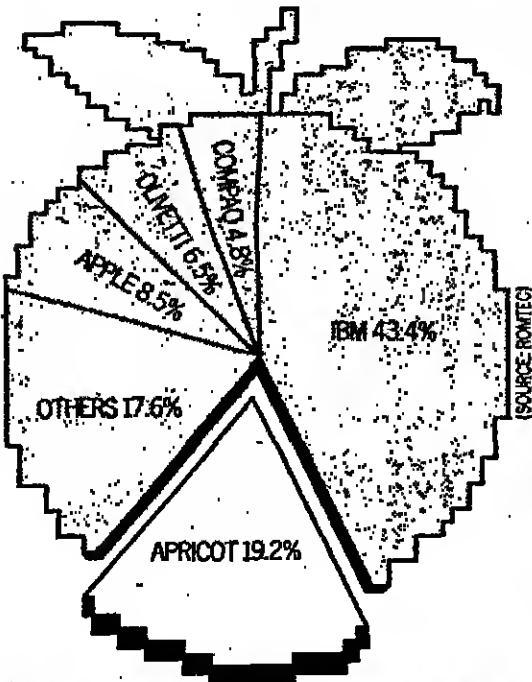
82/83  £22M

83/84  £50M

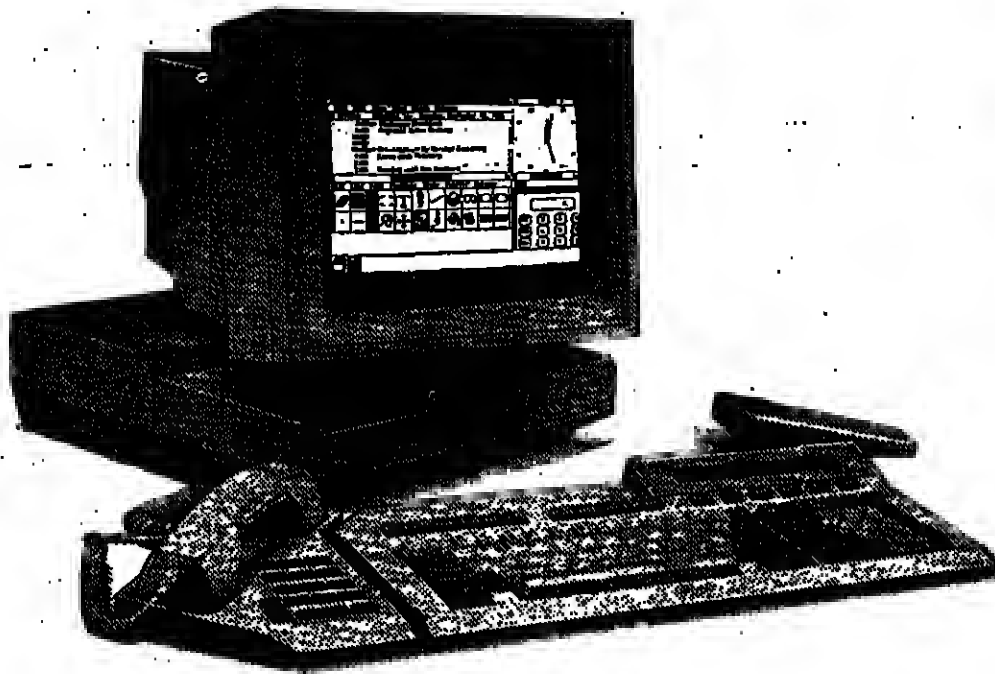
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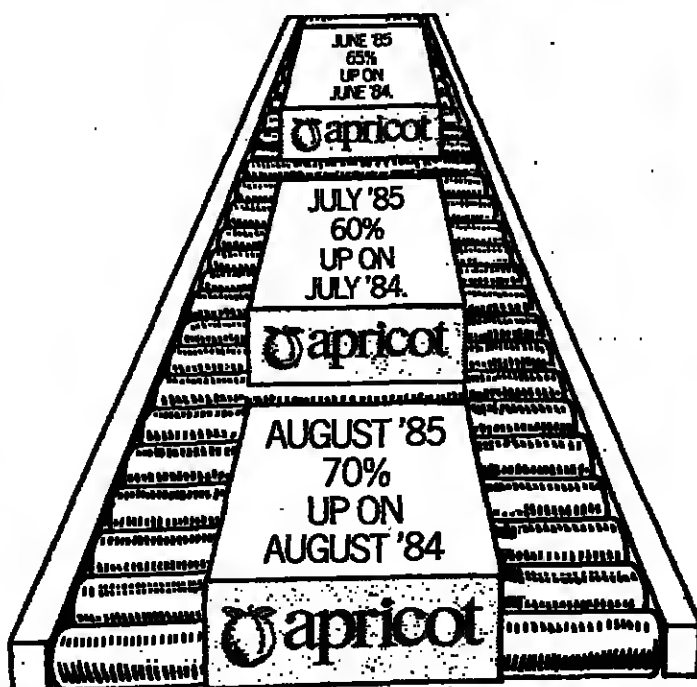
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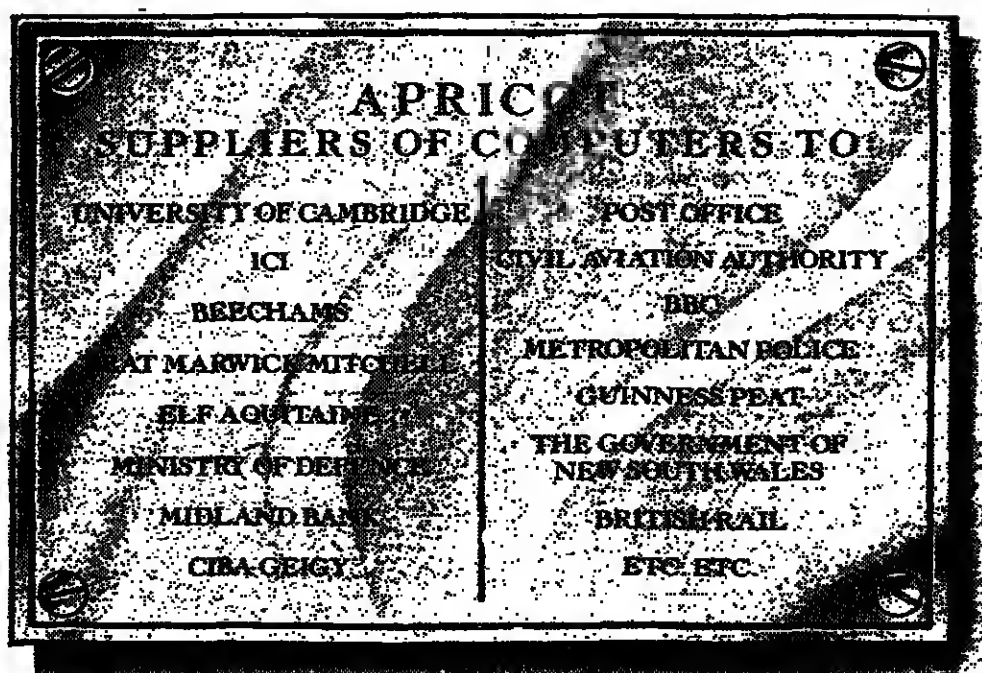
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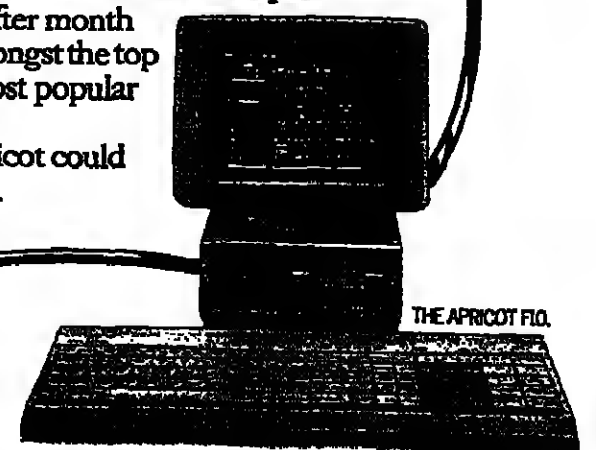
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THE MANAGEMENT PAGE: Small Business

EDITED BY CHRISTOPHER LORENZ

PUT YOURSELF in this situation. It is your first year in business and a new customer has telephoned to place an important order which could take up an entire six months' turnover.

Initial elation soon gives way to anxiety as you realise that there is no way of knowing for sure whether or how quickly the customer will pay. You must check his credit-worthiness, yet a day's delay could mean losing the contract. Any number of competitors are waiting in the wings. What do you do?

All too many small businesses would simply rely on their instincts and make a decision which they could regret later if the customer runs into payment difficulties. Such mistakes are frequently more serious for small ventures than for large ones because individual customers tend to represent a far higher proportion of total sales.

One way round the problem is to make use of the increasingly sophisticated business data available — often at the touch of a button — from Britain's credit reporting agencies. These collect information on businesses' financial health and ability to pay.

Their services are not new, but their scope is expanding fast so that they now represent an important decision-making tool for business too small to afford their own credit-checking staff.

A small business equipped with a videofax set or microcomputer, for instance, could obtain a brief breakdown on a customer for around £5 — charges vary widely depending on the amount of information required — as against the £15 to £20 costs of getting a written report by post.

"We know we are sitting on some super tools. It's a question of getting people to use them," says Dr Philip Holmes, managing director of Jordan Information Services, part of Jordans company formation group. But what exactly are these tools and how can the small businessman make them work?

Five of the largest credit reporting groups have launched computerised services in the past year, allowing clients almost instant access to information on customers and suppliers through terminals on their own desks.

Apart from speed and cheapness, these services offer the advantage of quick updating of any changes in a company's credit-worthiness. In addition, explains Tony Henderson, director of business marketing for Dun and Bradstreet, the largest supplier of business information in the UK, "as the database has



But can the customer pay?

William Dawkins looks into credit rating

expanded, the information has lent itself to any number of marketing uses."

One small business to have used on-line credit checking to avoid potentially troublesome customers is Nyborg Plastics, a Wides-based maker of polyethylene sheet. Nyborg, which has annual sales of \$5m, plugged into the database run by CCR Systems of Nottingham a year ago and has already saved £10,000.

That was the price of an order from a customer which was found, thanks to a CCR check, to have 11 County Court judgments against it. Needless to say, the order did not go through.

One of Dun and Bradstreet's most recent services, launched in August, provides analyses of companies' payment patterns against the norms for their industry and gives an indication of settlement times. Based on the sales ledgers of Dun and Bradstreet's larger customers, the payment trend analysis is available for about 20 per cent of the 300,000 companies on the group's UK business database. This provides an aid to cash flow projection.

Another recently launched service allows clients to feed in a list of parameters for their ideal sales prospect, including such qualities as turnover, location, industrial sector and number of employees. Dun and Bradstreet will then return a list of companies conforming to those qualities.

Credit reporting agencies depend for their information on sources such as Companies House, court judgments on bad

debts or liquidations, newspapers, their own customers' records and the electoral register (for consumer credit checks on individual company directors). As one might expect from a competitive and fast-moving industry, the leading organisations have each cultivated special niches. It is worth bearing this in mind when shopping around.

Jordans, for instance, claims to offer a unique service in its new companies register which grew from the group's mainstream business as a company formation agent, where it has 40 per cent of the British market. It lists 25,000 of the trading companies formed every year, after throwing out the 75,000 or so ventures which register as companies but never get off the ground.

Clients get a weekly computer print-out of new companies as they are formed, including names, telephone numbers and addresses; a useful early warning system of the arrival of competitors or potentially valuable customers. You could rebuke the director of a new company almost before it was trading," says Holmes.

If you need information on partnerships and sole traders, who would not be registered at Companies House, the specialist in that field is Infolink, run by the United Association for the Protection of Trade. The association's 10,000 members include banks, finance houses, manufacturers, retailers and wholesalers.

Infolink keeps tabs on

670,000 sole traders and partnerships which it claims is the largest database of its kind. In common with other credit reporting groups, it will monitor your clients and customers (at £1.40 per year each) and warn you whenever any adverse credit information crops up, such as a payment default notified by an association member or a court judgment.

ICC Information Group prides itself on its recently expanded file of more than 100,000 private companies, which it believes is the largest source of information on unquoted businesses. CCR Systems, part of Great Universal Stores, is best known as a supplier of consumer credit information, but broadened its services last year to include on-line business information following its acquisition of the credit reporting group, Manchester Guardian Society. Partnerships and sole traders joined the CCR on-line service in January.

On-line information is cheap if you are making a single inquiry, but a longer browse through the database will cost anything from £45 per hour to Jordans to £60 hourly at ICC. CCR, however, only charges per inquiry.

It therefore makes sense to load the information you need onto your own computer before looking at it. "Once you have done the data into your own computer, you don't have to pay to use it," explains Holmes.

If your business does not own a computer, a videofax set or telephone terminal will cost at least £20 per week to hire or £700 to £1,300 to buy. And if you do have a computer, you will have to pay £200 to £300 for a software program to connect with the credit reporting agency's machine.

BRITAIN'S leading credit reporting agencies include the following: Dun and Bradstreet, 26-32 Clifton Street, London EC2P 2LX. Contact: Andrew Dick, group director, credit services. Tel: 01-477 4377. Jordans Information Services, Jordans House, Brunswick Place, London N1 6EE. Contact: Dr Philip Holmes, managing director. Tel: 01-253 3636.

UAPT Infolink, Zodiac House, 163 London Road, Croydon CR9 2RP. Contact: Philip Cook, marketing manager. Tel: 01-686 8644.

CCR Systems, Talbot Street, Nottingham, NG1 5HF. Contact: Peter Winer, business development manager. Tel: 0602 410888.

ICC Information Group, 51 City Road, London EC1Y 1AY. Contact: Don Baker. Tel: 01-255 4932.

High technology

Where the risk is greatest

BY WILLIAM DAWKINS

FEW managers of small high technology companies realise that the riskiest period in their fortunes comes not when they are starting up, but as their businesses begin to expand.

The speed at which their markets move means that business planning is more important for young high technology companies than for any other kind of venture. That is the main theme of a paper presented recently by David Connell, manager of accountants Deloitte Haskins and Sells' London high technology group, to a conference of the Institute of Electronic and Radio Engineers.

But as they grow larger and their markets mature, the emphasis must shift towards tight financial control with efficient production and marketing. The founders of such ventures often find that they cannot learn these skills fast enough and therefore have to come to terms with recruiting professional managers from outside.

Connell believes that most businesses should need a full-time finance director (at least) by the time they have 50 staff, with a strong managing director able to control all aspects of the business through a middle management team by the time they have 100 employees.

"Many high-tech businesses make these recruitments rather too late," he warns. "The transition to a new form of organisation is frequently made only with difficulty. Lack of direction and control are common during

down at that stage and, to add to the strain, a second product is often being introduced at the same time."

A change in management style is the only way to cope. Start-up ventures need to be innovative and responsive to market opportunities, but they do not necessarily have to be very efficient so long as they can sell technologically superior products at high margins, says Connell.

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"Many high-tech businesses make these recruitments rather too late," he warns. "The transition to a new form of organisation is frequently made only with difficulty. Lack of direction and control are common during

these periods and fundamental changes are often required in the style of top management. Indeed, in some cases, a change in leadership may be necessary," he says.

Business planning plays an important part in containing the risks that go with growth. An informal approach to planning is usually adequate in the early stages, but shortcomings appear as the company gets more complex and its market draws in competitors. It is at this stage that high technology companies often have to face the fact that the ideas they started with may not be the ones to carry them into the future.

An extreme example of this process is the early history of the pocket calculator. In the seven years to 1979, prices fell from £79 for the Sinclair Executive (the world's first true pocket calculator) to £5. Competition now revolves on production volumes, global marketing and price — a situation in which very few small companies could survive.

Planning must therefore start by addressing competitors' activities and the expected life span of the company's products. Only then will it be possible to come up with a business strategy which typically should set production and marketing targets for the 18 months ahead.

"It should be possible to turn this statement down on a piece of paper," says Connell.

The next step, he advises, is to turn the strategy statement into a detailed plan of resources needed to make work. This should cover not only what equipment will be needed and when, but how people will be needed and what technical skills and financial implications.

Most business plans stop at that stage, says Connell. High technology ventures need to go further to examine how the organisation and management of the business must evolve around the plan. The implementation of the plan must itself be planned so that the management burden can be spread as widely as possible. Each individual's responsibilities and performance targets must be precisely documented and progress reports must be made to the board. That makes it possible to check, says Connell, "that the business has the management capacity to carry through all the changes involved as well as to run the core business."

"The Management of Growth in High Technology Companies" is available from Deloitte Haskins and Sells' High Technology Group, 128 Queen Victoria Street, London, EC4A 4JX. Telephone 01-449-3913.

In brief...

AN UPDATED fifth edition of accountants Arthur Young's guide, Financial Incentives and Assistance for Industry takes into account the reorganisation last spring of the Department of Trade and Industry's numerous support schemes into four groups: investment support, support for innovation, business and technical advisory services and support for exports.

The first four chapters deal with these headings. Others cover employment and training, local business initiatives, agriculture, national resources, transport and energy. Also included in the guide is practical advice on making grant applications with lists of contacts.

Copies are available free from Deborah Jones, Arthur Young, Rolls Buildings, Fetter Lane, London EC4A 1NH. Telephone 01-631 7130.

THE RISKS and advantages of exporting for small businesses are outlined in detail in the latest series of guide-line sheets produced by the Small Business Bureau, the Conservative Lobby group.

The sheets are non-political and deal with subjects ranging from transport to choosing a market, export documentation, bills of exchange and credit insurance. A full set of Small Exporters' Guide-line Sheets costs £2 including post and packaging. Applications should be sent to Dr Leah Hertz, 32 Smith Square, London SW1P 3BH. Cheques

should be made out to the Small Business Bureau.

THE RELIEF that managed workshop projects are successful incubators of small businesses is challenged in a review by the Glasgow-based research group, the Planning Exchange.

Most businesses located in workshop developments — small units on flexible terms in centrally managed industrial buildings — claim that they would have started in any case, says the report. Hertz Martine, the author, argues that workspace projects are nevertheless valued by small businesses because of the low rents and easy tenancy arrangements they provide.

Copies of Workshop Development are available for

£6 (or £4 for Planning Exchange members) from Design Exchange at 185 Bath Street, Glasgow G2 4HG. Telephone 041 332 6541.

FINANCE for Private Companies is the title of a seminar to be presented by the business information group, Dun & Bradstreet, on November 12 and December 4.

The seminar is for business owners and financial decision makers and will outline opportunities for those seeking outside finance for the first time. Details of financial sources available and ways to obtain new finance will also be covered.

The Café Royal in London's Regent Street is the venue and tickets cost £125 plus VAT. Details from Alison Ludlam, Dun & Bradstreet, telephone 01-377 4452.

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THE ARTS

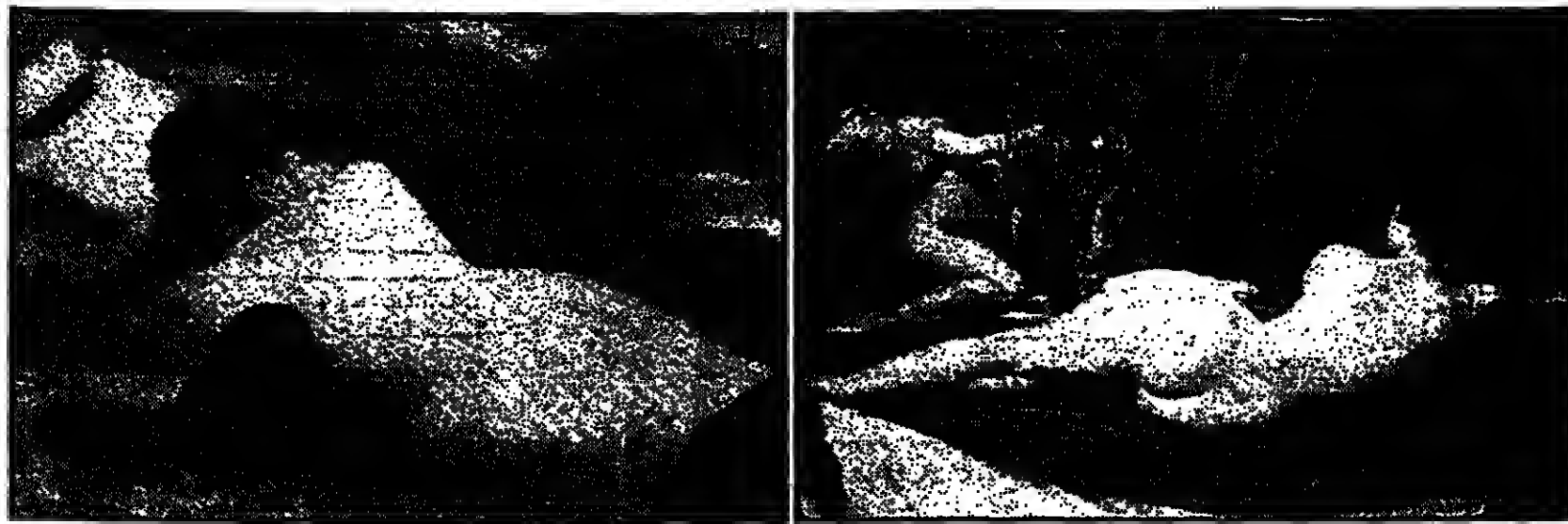
Galleries/William Packer

Vision in the eyes of the artist

The idea of inviting artists to take their pick of the National Gallery's collections justified itself in the series of small exhibitions which came of it that the revival of *The Artist's Eye* after a short break is most welcome. Francis Bacon is the artist of the hour; this second series which he inaugurates will continue for at least the five years Shell UK has committed its support.

Mr Bacon has chosen 15 paintings to hang together for a spell (until December 15) in the Surrey Room at the heart of the National Gallery, and he is public figure enough, especially after his critical triumph at the Tate, for his little show here to excite general curiosity. It deserves more serious consideration than that, however, for it is a restatement and demonstration of a point of real importance to an understanding of great art and the nature of the public institutions it supports. That point has been made by every *Artist's Eye*, but it will always bear repetition.

The great public galleries, of which the National Gallery is one of the most remarkable, perform the necessary duty in democratic age of collecting and holding great art on behalf of us all. But the roles and functions that follow upon such duty, of conservation and exhibition, exposition and research, were never necessary to the making of art, and need be no concern of the artist. It is the instinct of the scholar and the curator to distinguish school from school and period from period, to hang like with like and to see each work within its clear and separate compartment. Practical convenience too is a powerful argument that must banish the higgledy-piggledy of private collection and accumulation from the museum. Collections grow, and special areas of study declare themselves, and it is in the



Detail from Seurat's "Une Baigneuse" (left) and Velázquez' "Rokeby Venus," two of the paintings chosen by Francis Bacon

nature of the beast that the immediate, hermetic disciplines and preoccupations of scholarship should sometimes cloud more general considerations. In taking all this into account we need not so much guard against the scholarly, institutional view of what art is and how it may best be ordered and experienced, as against the easy assumption that it is the only view. The artist has other orders of priority, and though his may not be an academic expertise, his interest in the same material may be as great, his actual knowledge of the work in its physical presence as profound, as any scholar's. He will be drawn to the work of the great masters by all manner of sympathy and interest, general and particular, looking often for direct practical help and pertinent example, no matter that centuries may intervene or cultural barriers seem to block the way. Before the work he recognises that whatever the superficial differences might be

the essential community of artists, expressed by problems faced and experience shared, allows a direct and potent intercourse. The work remains as alive and vital now as it ever was, if only the right questions are asked of it. Francis Bacon's preoccupation has been the human figure, and in particular the male nude, so it is hardly surprising that in the main he has chosen figure paintings of one kind or another — portraits and studies of the nude on the one hand, grander figure compositions on the other. But given his own fierce and idiosyncratic expressionism, overlaid as it appears to be with misanthropy, it is surprising that his choice should rest entirely with paintings whose common characteristic, whether stated in terms of intimate directness or monumental grandeur, is a calm and tender humanity, deeply felt.

He has always said if his own work that, contrary to superficial appearance, it is not con-

cerned with distortion, degradation and despair, but rather with the direct statement of the image and its practical achievement as a convincing yet distinct object, with a life of its own quite apart from any reference to human experience. The Tate retrospective certainly made clear to those who looked beyond the imagery that he was a painter of great delicacy and finesse; and now again he is able to say to us, in this different way: "Look — this is what I mean." Here there is none of the enervated extravagance, no Titian or Tintoretto, Rubens or Tiepolo, but instead a quiet, static and self-sufficient image that sets the Virgin and Child of Masaccio so happily alongside the huge *Baigneuse* of Seurat and the sphinx-like *Madame Tenebris* of Ingres, with every figure of the Degas past of the large Degas past of a woman drying herself, *Après le Bain*, holding its place in the company by the simple sculptural authority of the image. The more active

compositions too: the fringing squad in Manet's fragmentary *Execution of Maximilian* and Michelangelo's *Entombment*, are drawn into the common mood by an hieratic or theatrical disposition that is at once gestural and finite. The Degas is the only image of the figure here in which the marks on the surface, which is to say the handling of the medium, are especially in evidence in themselves, and it is left rather to the landscapes of Turner and Cézanne, and the kitchen chair still life of Van Gogh, to keep up in mind of the mysterious language of paint which in its handling is so conspicuous a feature of Bacon's own work.

To see such things as the Degas on the same wall as the Rokeby Venus of Velázquez, or the Seurat as the Masaccio, is a rare and valuable experience, but magnificent as these things are, for me the greater pleasure was afforded by the clutch of portraits — the two Rembrandts of Margaretta de Geer hung

side by side with a Velázquez head of Philip IV, and the Goya nearby of Don Andres del Peral, an image of profound authority achieved with a ravishing factility. These four images confront us to the life, their personality conjured for us with the utmost conviction: Rembrandt intimate and wholehearted in his psychological scrutiny; Velázquez detached; Goya ironical; all of them profound in their humane understanding.

These comparatively small works draw us closer to the heart of Bacon's own sympathies and an understanding of his vision, and if I have regrets at all about this show, they rest with them. I do wish that the Goya had been hung directly with the other three and I also wish that Bacon himself, who has not exercised his selector's privilege to introduce a work of his own, had chosen to hang with them one of the small portrait studies he painted nearly 30 years ago.

Death of a Salesman/Royal Exchange, Manchester

Charlotte Keatley



Carmen Rodriguez and Trevor Peacock

The play which Arthur Miller originally called *The Inside of his Head* is given pertinent intensity by being staged in the round at Manchester's Royal Exchange Theatre. The naturalistic backdrop of apartment blocks overshadowing the Loman's home with "bricks and windows, windows and bricks" is replaced by huge billboards in Laurie Rosten's symbolic design. Hung on the circular galleries of the theatre, the flashing neon signs impinge on the audience's consciousness as well as encompassing Willie Loman's life, past and present, with garish symbols of America's materialistic dream. For interior scenes a folksy pine style of chairs and bedsteads neatly echoes the pioneer ethos which Willie has spent his life trying to cultivate in the hostile territory of a Brooklyn salesman's career.

Miller opens his play at crisis point: 60-year-old Willie returns from a failed trip, late at night, in such a state of psychosis that his past haunts his present to the extent that we see and hear it on stage. Bill has also returned home, eldest son of the family, to find his father's admission of a failed life, because Willie's encouragement of Bill's bravado stealing and sporting competitiveness has made him unemployable in an office career. So the play is a personal father-son tragedy as much as a public tragedy of a family tempted and taunted by the American Dream of opportunity for

all — for which, as the play unfolds, we see that Willie and Happy, the "successful" son, here sold out their morals concerning women and money. Gregory Hersov's production brings the Willie-Biff relationship to the fore. Trevor Peacock is at his most tender and convincing when playing the large Degas past of a woman drying herself, *Après le Bain*, holding its place in the company by the simple sculptural authority of the image. The more active

Prospects 'bleak' for Royal Opera House

Unless there is an increase in Arts Council funding of at least £1.2m for the Royal Opera House, Covent Garden, in 1986-87 the "prospects are exceedingly bleak," according to Sir John Tooley, director general of Covent Garden. Speaking at the annual financial press conference yesterday he predicted a reduction in the number of performances from 500 to 300 a year, and substantial staff cuts, if the higher subsidy was not forthcoming. After years of gloomy predictions the crisis seems to have arrived at the Opera House. After a rise in Arts Council aid of only 1.9 per cent in the current year, to £12.6m, Covent Garden anticipates a shortfall this year of £700,000. On top of this sum it will need an increase of around 5 per cent, or £600,000, next year to maintain its plans.

At the moment arts organisations anticipate hearing from the Arts Council in December that their subsidy can be raised by only around 2.2 per cent. This would be quite inadequate for Covent Garden, which is asking the Council for £13.9m. Sir Claus Moser, chairman of Covent Garden, went out of his way to contrast the effects of a low grant with the recent success of the Opera House. In 1984-85, the year under review, attendances had been the highest for many years, with 92

Kullervo: A Faust Symphony

Andrew Clements

A weekend of gargantuan symphonies at the Festival Hall. On Saturday the main work in the Royal Philharmonic Orchestra's concert under Paavo Berglund was Sibelius's *Kullervo Symphony*. The following evening Georg Sholti took the London Philharmonic through Liszt's *A Faust Symphony*. The latter may be no great rarity nowadays — its popularity among conductors appears to be growing — but the Sibelius certainly is not only because of its dimension (75 minutes of music, requiring soprano and haritone soloists as well as a male-voice chorus) but because of its unworldly quality. Sibelius's earliest attempts at exploring Finnish mythology in an awkward kind of hybrid: part tightly organised symphonic structure (it would be hard to disagree with his argument on its architectural consistency), part dramatic oratorio. The big central movement, which relates the main part of Kullervo's story of essentially operatic, packaged for the concert hall by having the three female protagonists sing by a single soprano. That movement is in every way the least convincing, with four-square choruses and plain solo writing.

Berglund presented it here with the thrust and conviction he gives habitually to his Sibelius performances. He also had the benefit of a fine Finnish soprano, Seva-Liisa Naumanen, more than adequate baritone, Jorma Hynninen, and the Helsinki University male voice choir. With such authentic credentials (and surely Kullervo is nearly unperformed except with native

singers) the symphony was given the best possible chance and still only seemed partly successful. The first movement, translating Bruckner into Scandinavian sobriety, is an impressive achievement with a splendid opening theme; thereafter the music becomes progressively less distinguished. Liszt's Faustian extravaganza is a different matter, and in comparison seemed the very model of organic coherence. Sholti proved to be a model interpreter, obtaining playing of great accuracy and penetration from the LPO. One could imagine the same conductor a decade or more ago making this symphony seem intolerably aggressive; surely it is not imagination that finds in his conducting more recently a new-found mellowness, a desire to round off the sharper edges without sacrificing any of the immediacy. Other conductors may well have found more warmth in the slow movement, but the drive and rigour surrounding it were spectacularly successful.

Both symphonies had been prefaced by concertos: Sholti partnered Alfred Brendel in Beethoven's Emperor, Berglund the young Joseph Swensen in Sibelius's violin concerto. For all the fluency and flare of Brendel on top form, the young violinist's strangely deliberate playing was more compelling; he chose moderate speeds and observed every detail. It was in effect a performance studiously lacking in open virtuosity, but one that nevertheless seemed to bring the concerto rather closer to the spirit of Sibelius's symphonic music than it often appeared to be.

Arditti Quartet/Almeida Theatre

David Murray

This Sunday afternoon concert concluded the "Mahler, Vienna & the 20th Century" festival with the most sophisticated Berg and the most primitive Mahler. In the latter, a minor piano quartet (a single movement from 1978) the material can be discerned easily enough, but it is very badly set out. There were signs that the Arditti Quartet, with the pianist Vovka Ashkenazy, had been careful not to spoil its naive passion by over-rehearsal.

Alban Berg was introduced here by his Four Pieces on 5 for clarinet and piano. Ashkenazy was a scrupulous and imaginative accompanist for Andrew Marriner's clarinet, which whistled and soared exquisitely. I do not remember a performance of these elusive miniatures so imbued with precise feeling, so much was conveyed, no less in the sharp arabesques of the later pieces than in the introverted murmurs of the earlier ones, as to helix their chromometrical scale.

The Arditti's account of the Lyric Suite sounded like work in progress — but work of a very high order. Now and again somebody's fingerhold on the highest ledger-line slipped. The second tempo in the *Andante amoroso* had too little forward urge; the "Trío estatico" missed its full silken sweep, and their sweet traces of the mysterious caution in the Allegro the second and fourth movements wanted more lyrical authority.

Such points could be remarked, however, only because the high ambitions of the Arditti reading were so often realised. Each solo voice offered potent insights in many passages (especially Rohn de Sarant's cello, which found strong shapes in places where most cellists are only too pleased to manage the notes). In fact, Berg's sedulously indistinct leading voices were kept in relief with uncommon faithfulness, but never just by suppressing the others. The toughest polyphony was dramatically argued and some of Berg's most lurid effects — the "tebroso" of the Presto, for example — were uncannily vivid. This performance should mature superbly.

A Village Romeo and Juliet

Andrew Clark

Delius lovers, that inscrutable and unshakable fraternity, have never had it so good. The recorded repertoire is so extensive and since 1980 there have been no fewer than five new stagings of Delius's ripest opera, *A Village Romeo and Juliet*, the latest being the opening production of the season at Düsseldorf.

As usual, those who have already been converted to the Delius fold will have no difficulty luxuriating in the world of dreamy rapture that he creates; but with other recent performances still fresh in the memory, the new production by the Deutsche Oper am Rhein is up against stiff competition, and I doubt if anyone coming to the work for the first time would have been swept away quite as easily as by the last two productions on German-speaking territory, at Zürich and Darmstadt.

Those who recall how the company handled the Gehrardt designs (this year will be relieved to know that the same producer, Bohumil Hirschke, has not done another scissoring job on the Delius. None-the-less, although *Romeo and Juliet* can seem Dorey, as the German-language version is called, is played in full, with a large orchestra and a good cast, there is a distinct impression of unfulfilled potential.

The production looked low-budget and for much of the evening lacked the flair of presentation that transports the imagination beyond the four corners of the stage. The rudimentary decor for the first four scenes, with a painted backdrop of very un-Alpine hills, had lost the sense of proportion suggested in Rudolfs Barck's original designs (which were exhibited in the foyer) and failed to identify this wild land at the heart of the family dispute. The amplification through the house address system of the opening exchanges of Marti and Manx and of the wedding chorus was unnecessary and intrusive.

Another dubious decision was to make do with the two adult principals for Sali and Vrenchen in the opening scene. There is no substitute for the more genuine and high-pitched voices and pre-adolescent man-

Arts Guide

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Oct 25-31

Opera and Ballet

LONDON

Royal Opera, Covent Garden: Il Trovatore, in the now-ancient Visconti production, serves as a vehicle for Les First Ladies, Elena Obraztsova and Elizabeth Connell, and Wolfgang Brendel, both accomplished but not quite complete Verdians; José Carreras and Elena Obraztsova complete the cast, and Giuseppe Patané conducts (240 1068).

English National Opera, Coliseum: Orpheus in the Underworld, the somewhat unexciting Offenbach collaboration by David Pountney and Gerald Scarfe, returns for a further set of performances with a largely new cast. Also in the repertoire: the new production of Faust, and the generally admirable revivals of Don Carlos and Rigoletto. (880 3151).

Royal Opera House: The Royal Ballet repertoire includes The Two Pigeons, Sleeping Beauty and a triple bill with David Bintley's *The Song of Horus*.

Donmar, Tottenham Court Road: Northern Ballet Theatre with a new Obello followed by *Les Femmes d'Alger* as guest in *Sirgei Collberg's* *Miss Julie* as part of a triple bill on Thursday. (586 9522).

PARIS

Lise Garden — Source Antony Tudor: Lise Garden to music by Ernest Chausson, continues, music by Johann Pachelbel: Dark Elegies to Gustav Mahler's music, all three in Antony Tudor's choreography. Concerto Barocco by J.S. Bach to George Balanchine's choreography. Opera Comique (236 0111).

St John Passion: J.S. Bach's oratorio conducted by William Christie, produced by Pier-Luigi Pizzi, Les Arts Florissants, Paris Sorbonne's Choir. The Venice production presented by the Théâtre des Champs Elysées (723 4777).

Brussels: Cirque Royal (212 2115): Takes of Hoffman by Offenbach conducted by Sylvain Cambreling with Stuart Burrows, Jose Van Dam, Rita Gorr.

West Germany: Berlin, Deutsche Oper: There will be two Wagner operas this week. Die Walküre and Siegfried. The Götter Friedrich productions bring together Simon Rietz, Rene Kollo, Katarina Legzdina and Julia Varady. Madama Butterfly has Yoko Nonaka ex-celling in the title role. Also offered, Così fan tutte and Der Barbier von Sevilla. (34 3811).

Stuttgart, Württembergische Staatstheater: Die Fledermaus featuring Gabriela Benckova, Bernd Weigl and Vladimir Atlantov. Philip Glass' opera Ekhart, composed for the Stuttgart Opera, is an Achim Freyer production. Counter tenor Paul Esswood is outstanding in a cast of high standard. Così fan tutte and Der Barbier von Sevilla. (26 3211).

ITALY

Florence: Teatro Comunale: Bello in Maschera conducted by Gianandrea Gavazzeni. Luciano Pavarotti leads the cast in Sandro Sequi's produc-

tion, with Piero Cappuccilli, Maria Chiara, Patricia Poyas and Patricia Pace. Scenery and costumes by Giuseppe Crisafulli. (277 8232).

Venice: Gran Teatro La Fenice: Così fan tutte this year of £700,000. On top of this sum it will need an increase of around 5 per cent, or £600,000, next year to maintain its plans.

Netherlands: Opera production of Tchaikovsky's *Phigade* (in Russian) directed by David Pountney. The Netherlands Philharmonic under Edo de Waart, with two choirs and members of the National Ballet. Can be led by Jan Binkhuijs, Henk Smits, Elaine Benard and Helena Doose. Tue in Utrecht, Stadsschouwburg (31 02 41). (Thurs) Amsterdam, Stadsschouwburg (24 21 11).

The National Ballet on tour with a Balanchine programme: Concerto Barocco, Moussourgsky pro Gershwine, Movements for piano and orchestra. Tchaikovsky pas-de-deux, and Symphony in C. Tue in Tilburg, Stadsschouwburg (31 02 41). (Thurs) Amsterdam, Stadsschouwburg (24 21 11).

Spain: Madrid: Andante Festival: Pina Bausch Tanztheater of Wuppertal with premier in Spain of Café Müller. Teatro de La Zarzuela, Jovellanos 4. (Tue, Wed). (429 8118). Also Dance Theatre of Marlene Serenade choreographed by Balanchine. Voluntary by Glen Tetley and Fire Bird by John Thras (Tue, Wed). Troy Games by Robert North. Le Corsaire by Karel Shook. Streetcar Named Desire by Valerie Bettis and Four Temperaments by

Balanchine. (Thurs, Fri). Palacio de Exposiciones y Congresos, Paseo de la Castellana. (455 8363).

NEW YORK

Metropolitan Opera (Opera House): The week features the season's first performance of Porgy & Bess, conducted by James Levine, with Robert Alexander, Neeme Järvi conducts the August Everding's production of Khovanshchina, with Natalia Rom as Emma, Florence Quivar as Marie and Wendell Oelmann as Prince Golitsyn. Lincoln Center (382 6000).

The Field Ballet (Joyce): Choreographer Eliot Feld puts his company through a variety of pieces including the world premieres of *Aurora I* and *Medium Rare*. Ends Nov 3, 8th Av. at 19th St. (242 0800).

CHICAGO

Lyrice Opera (Civic Opera House): The 51st season begins with Otello starring Margaret Price, William Jones and Sherrill Milnes, conducted by Bruno Bartoletti and staged by Antonio Madaia Diaz. The season also has in repertoire *Madame Butterfly* with Anna Tomowa-Sintow in the title role conducted by Miguel Gomez Martinez, as well as *Semson*, *Anna Bolena*, *La Traviata*, *I Capuleti e i Montecchi*, *Die Meistersinger* and *La Rondine*. (832 2244).

TOKYO

Musique Béjart 20th Century Ballet: Wien, Wien, Nur du Allein. Kami Hoken Hall. (Wed, Thurs). (723 2356).

Japanese Court Music and Dance (Cagalu): National Theatre (Wed). (285 7411).

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Tuesday October 29 1985

Welcome move in Japan

CENTRAL bankers can hardly expect accolades when they precipitate a collapse of their domestic bond prices and send ripples of confusion, bordering at times on panic, into the debt and money markets of all their trading partners throughout the world. This is precisely what the Bank of Japan has been doing with its destabilising intervention in the Tokyo bond and money markets since last Friday. Yet, contrary to custom, the bank deserves congratulations from anybody concerned about the long-term balance of the world economy or even the narrower interests of Japan itself.

The most immediate result of the last few days' turmoil—which hit Tokyo bond prices by more than four points on Friday and pushed one-month Japanese interest rates to their highest level for three years—has been to remind investors and politicians around the world of a few home truths. At the simplest level, Japanese investment institutions and politicians alike have been reminded that there is no such thing as a free lunch. In the last few weeks, a dangerous smugness had been gradually taking hold in Japan and elsewhere about the currency intervention agreement reached in September by the Group of Five leading finance ministers. The politicians seem to have felt that the currency agreement had attained its immediate objectives of pushing down the dollar and defusing the protectionist time-bomb in Washington. This served to increase confidence in U.S. economic prospects, while diminishing the pressures for fundamental changes in the Japanese macro-economic stance.

On the other hand, the very satisfaction among the politicians with the results achieved so far encouraged investors to assume that the dollar would not fall much further. Gradually, fears of the sort of unsettling policy changes which might have been required to keep the dollar headed firmly downward began to evaporate. The result was a sharp upswing in the Japanese bond market, which had previously been subdued by the fear that Japanese interest rates would have to be raised to strengthen the yen. Meanwhile, the incorrigible

dollar bulls in Japan and elsewhere were beginning to raise their heads above the parapet again. What the Bank of Japan has now done is to let the markets know through its actions that the G5 agreement does involve fundamental economic changes. At the same time it has effectively served notice on politicians on both sides of the Pacific that these fundamental changes could hurt, especially if they are left to the monetary authorities alone. Intervention is painless only if it is unsupported by any monetary changes—the process known in economic jargon as “sterilised” intervention. The recent actions in Tokyo suggest that Japan, at least, is willing to go further and use “unsterilised” intervention to push the dollar down and keep it there. The policy implications could be momentous. Unsterilised intervention either means a tightening of money in Japan, a loosening in the U.S. or, most likely, a combination of both.

If the authorities are willing to accept the costs of these policies—in terms of heightened inflationary expectations in America and dampened domestic growth in Japan—there is every reason to suppose that the campaign to bring the dollar down will continue to be successful. It is to be hoped that they will be willing to accept such costs because the re-establishment of some semblance of balance between America and Japan must now rank as one of the world's top economic priorities.

In a rational world, however, there would be no need for Japan to sacrifice domestic growth for the Fed to jeopardise its achievements against inflation. The U.S. would cut its budget deficit sufficiently to offset the inflationary effects of looser monetary policy. Just as important, the Japanese Government would urgently expand its budget deficit to provide a much-needed boost for Japan's domestic demand. Unfortunately, in the irrational world of fiscal policy-making in both America and Japan, neither of these changes is likely in the near future. But no one should blame the Bank of Japan.

Reforming air fares in Europe

A TRULY competitive European civil aviation industry remains a distant prospect. But the onus for some limited liberalisation have rarely been as favourable. Last week Stanley Clayton Davis, the Transport Commissioner in Brussels, poured scorn on the very cautious proposals for reform put forward by European scheduled airlines which are now under discussion at the International Air Transport Association's annual meeting in Hamburg.

The scheduled airlines' proposals are a response to the European Commission's memorandum on civil aviation of March 1984. This had argued that while U.S.-style deregulation was unthinkable in Europe, the bilateral agreements between governments which determine both the price and quantity of air traffic could be made less restrictive. In particular, the Commission suggested that countries should not insist on a rigid 50 per cent share of air traffic between member states but instead be content with a “safety net” of a guaranteed 25 per cent share. The Commission was much less adventurous on airlines pricing policies, suggesting the establishment of reference tariffs and “zones of reasonable fares”—pricing ranges within which airlines could establish tariffs freely.

The scheduled airlines' proposals—issued under the aegis of the Association of European Airlines—have been poorly received in Brussels. This is partly because they fail to measure up to the Commission's 1984 arguments. The “safety net” capacity proposal has been rejected: the airlines are prepared to offer only a 45:55 traffic split in place of the standard 50:50 arrangement. And although the AEA proposals take up the idea of tariff zones, they do not offer much of a debate. Even if British Airways points out that 50 out of 52 of its cheap European fares are already below the lower limit of the proposed “deep discount” zones.

Perhaps more important, the airlines' blueprint fails to recognise that the debate has moved on in the past 18 months. Civil servants in Brussels have been impressed by the series of liberal air service agreements since negotiated by the UK. When EEC Transport Ministers meet on November 14, the key

elements of the UK's recent pact with the Netherlands, Belgium and Luxembourg could be considered as the basis for an overhaul of air transport regulation in Europe. Such a regime would involve the adoption throughout Europe of a “double disapproval” pricing mechanism: in other words, airlines flying between two countries could adopt any tariff they wanted provided it was not rejected by both the governments concerned. Under such a scheme, the French government could not, for example, prevent BA offering a low scheduled fare to Paris unless the UK government also agreed it was unacceptable.

It would also require the “multi-designation” of airlines and “open routes”. These two conditions would ensure that the prime scheduled services were not reserved solely for national flag airlines (several airlines from each country would be allowed to compete on all the main routes) and that airlines could fly from any point in one country to any point in the other. The package would also require an agreement on capacity: either that airlines could offer ever more seats they saw fit or some variant of the Commission's safety net proposal. It is no use pretending that these modest reforms, while falling short of full-blooded deregulation and receiving a sympathetic hearing at the Commission, will win majority support within the EEC in the short run. It is by no means certain even that countries such as the Netherlands, which are signatories to liberal pacts with the UK, will staunchly support the Europe-wide adoption of such principles and virtually certain that countries such as France and Italy will strongly favour the late AEA line.

Yet EEC members states have a duty to look after the interests of consumers and to see that both the letter and spirit of the Treaty of Rome is enforced. In December, the European Court of Justice is expected to rule on whether the treaty's competition laws apply to civil aviation. If it says yes, the countries in favour of the status quo will be put in a difficult position. But even if the answer is no, the onus will be on those in favour of today's cartelised system to explain why air transport is different from other businesses and why it should remain immune from competitive pressures.

NOTHING illustrates the financial muscle of Japanese investors more powerfully than the ripple of unease which spread through world bond markets following last week's slump in Tokyo government securities.

In London and New York, bond dealers watched with dismay as the fall in Tokyo sparked worries that the bonanza of Japanese buying which has kept international markets going for more than a year, could suddenly dry up as a result of losses at home.

Japanese investors are now such big players that they are widely recognised to be the driving force behind the \$100bn a year Eurobond market and powerful players in the much larger U.S. government bond market itself.

By the end of August, Japan's net foreign assets abroad stood at \$84bn. The country now vies with Saudi Arabia for the position of the world's largest creditor.

And just as Saudi Arabia came to depend on the health of the oil market, Japan's system in which it deposited most of its money in the 1970s, so Japanese investors are now vulnerable to the fate of the dollar in which most of their foreign investments are held. Conversely, many bankers argue, the U.S. is vulnerable too because it is relying on Japan to finance its vast budget deficit.

The main worry now is that this delicate balance will come unstuck as Japanese investors draw in their horns after their own market collapse. Some estimates put the losses in the Tokyo market at more than \$160bn, spelling a huge loss of face for the leading securities houses which have been actively marketing futures as well as foreign bonds to their clients at home.

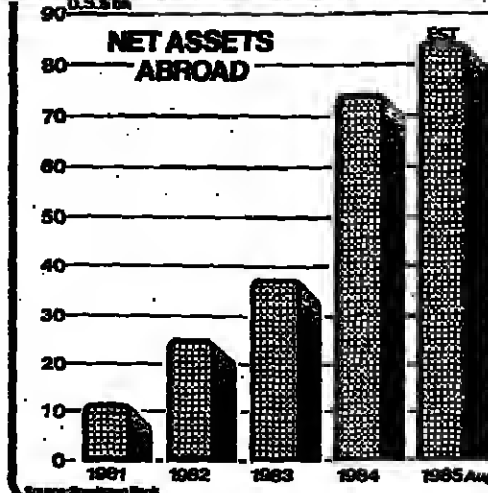
But though the events of the past week have made the investment climate more volatile, there seems little likelihood of the outbreak in foreign bond markets drying up.

“There is no escape,” says Mr Nobumitsu Kagami of Nomura Investment Management Company. A high savings rate, coupled with a shortage of good domestic investment opportunities and the country's yawning balance of payments surplus, has condemned Japan to its role of massive capital exporter for the foreseeable future.

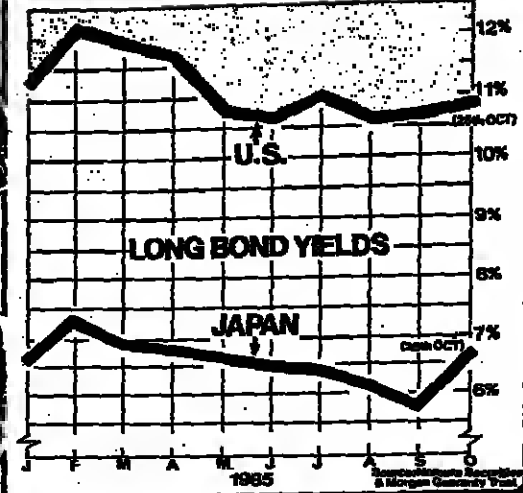
For last week's investors also had a clear underlying rationale for buying foreign bonds. Then there was a five percentage point yield differential between Japanese government bonds and

JAPAN'S BOND MARKET PROBLEMS

HOW JAPANESE CAPITAL FLOWED OVERSEAS



AND THE YIELD GAP WITH THE U.S.



A growing dilemma for the world's biggest creditor

By Peter Montagnon, Euromarkets Correspondent

the 10 1/2 per cent available from U.S. government securities. The extra income was sufficient to offset even a substantial decline in the value of the dollar against the yen.

At least that is the argument investors in Tokyo had been using as they stepped up their investments in foreign bonds this month after net outflows in August and September dropped successively to \$4.47bn and about \$3bn successively from July's record of \$8.45bn. October's total is expected to be higher than September's.

At a stroke, however, the Bank of Japan has done away with this cosy feeling of confidence. By refusing to accommodate a shortage in the local short-term money market it has driven short-term yen rates sharply higher. That in turn has spilled over into other markets, driving the yen higher.

The result is that the arguments in favour of investing abroad have lost at least some of their appeal for the time being. With Japanese government bonds yesterday yielding 6.61 per cent, the interest differential against the U.S. has narrowed and the rise in the yen has highlighted the risk of further currency losses.

All this comes against a background of repeated official warnings from Ministry of Finance officials about the dangers run by Japanese residents who buy foreign bonds. Mr Toyoo Gyohden, Director General of the Ministry's International Finance Bureau, pointed again to these risks when he hit out at the “aggressive” tactics used by some foreign bond salesman in offloading their wares on unsuspecting smaller individual investors and corporations.

At the back of his mind, he said, was the need to ensure that the outflow of capital did not actually exceed Japan's current account balances of

payments surplus. That would serve to weaken the yen and could undermine the advantages gained through September's agreement by the Group of Five leading industrial nations to intervene more actively to depress the dollar in exchange markets.

Already by last week the prevailing view in the Tokyo investment community was that the G5 agreement might have already produced just about the maximum effect possible. The yen is felt to be stabilised in a range between 210 and 220 to the dollar, offering investors the chance to buy more bonds abroad and then average down the total cost of their foreign currency purchases to protect against a further dollar decline.

However, this also masks the tacit admission that most investors have no choice. The cash at their disposal is so large and the markets that can take it so few, many simply

feel locked into the U.S. government securities market. Even at the staid North-chukin agricultural co-operative bank dealers habitually stay up until one or two in the morning to trade U.S. government bonds. Some estimates put Japanese purchases of such paper at more than one third of all foreign money flowing into the U.S. market. Put another way, says Mr Kenichiki Yagi of Bache Securities (Japan), this means Japanese investors snap up some 10 per cent of all new medium and long-term U.S. government issues and perhaps 15 per cent of the longest 25 to 30 year bonds.

Two or three years ago when the Japanese started to become massive buyers of international bonds, the market was dominated by insurance companies and pension funds which are restricted by the Finance Ministry to purchases amounting to no more than

of their appeal for the time being. With Japanese government bonds yesterday yielding 6.61 per cent, the interest differential against the U.S. has narrowed and the rise in the yen has highlighted the risk of further currency losses.

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10 per cent of their assets. With the exception of the Post Office Life Insurance Bureau, still a potentially important investor, most of these institutions are at or near their limit. Daiwa Securities calculates that on average insurance companies already have 8.81 per cent of their assets locked away in foreign securities.

That means new investments from institutions have slowed down to a pace commensurate with their steady 15 to 20 per cent annual growth in total assets. Instead, corporate treasurers now dominate the market, taking up some 50 per cent as much as 40 per cent of all foreign currency bonds sold into Japan.

Many of these, ranging from Nippon Steel to the trading concern Nishio Iwai, are now setting up investment units in London to monitor their investment activity. The muscle of these investors is illustrated by Toyota Motor Company, which manages the equivalent of \$6.5bn in liquid cash and makes ¥100bn a year profit by its foreign financial investments.

This is the world of what Japan now calls “zaibai” or making money with money. It is a natural one for corporations bereft of investment opportunities in Japan's sluggish economy, but it is also volatile.

So far these investors have grown to regard the U.S. government bond market as offering a good rate of return even after currency risks have been hedged. For the time being other markets are less attractive because they are less liquid, offer lower yields or, as is currently the case with the U.S. market, carry a flat to negative yield curve, meaning that short-term rates are higher than long-term.

One theory is that higher short-term rates in Tokyo will now offset the appeal of the U.S. market, especially since rates paid on larger deposits of more than ¥1bn were liberalised at the start of the month. For the longer run, however, the fundamental reason for Japan to invest abroad so long as its savings rate is high and its balance of payments is in surplus.

Given that a way has to be found to moderate excessive capital outflow, the best route, bankers say, is to keep investors running scared. Even all nothing should give after the most innocent of investors' greater pause for thought than awareness of the fact that the risk of currency loss is compounded by higher rates at home.

Jurek Martin
in Tokyo

Morton's own arrow

In his four stormy years at Guinness Peat, Alastair Morton has been called many things: a maverick, a troublemaker, a troublemaker. But even his critics have begun to show him respect for hauling the stricken financial services group back from very stormy waters in 1982.

The bid he launched yesterday for Britania, a company typical of his style, is bold, even cheeky (Britania is bigger than Guinness), and if it succeeds should place him at the top of one of Britain's bigger financial conglomerates.

That would mark yet another twist to an already well-packed career for this 47-year-old. He began life in mining, then moved to the World Bank. Next came a spell at the Industrial Reorganisation Corporation before he moved to the financial services at the Drayton Group. In 1976 he became the first managing director of RNO, only to quit in 1980 after a difference of views with Mrs Thatcher.

After briefly working as an energy consultant, he was called in to sort out Guinness Peat in 1982, which he did with

Men and Matters

vigour, and a cool head for figures. From a low point of £25m in June that year, GP's market valuation has risen to £135m today.

Should his BA bid succeed, the City will be watching to see whether Morton also has the skills to weld together a “people” business. But he sees his job as “keeper of the balance sheet,” worrying about capital and strategy. “I'm not a banker or a dealer or an insurance broker,” he says.

The legal moves came after Burke appeared as a witness yesterday at a hearing of the Australian Broadcasting Tribunal. While giving evidence he countered allegations of Bond warning him that Holmes & Court had threatened to bring down the government.

The hearing is to decide whether Perth should have a third television station. Bond owns one of the existing two stations and Holmes & Court the other. Both men oppose the prospect of a new competitor.

Farrell is chairman of the prime contender group for a new licence, as well as being a close friend of Burke.

Bond claims that at an informal meeting between himself and Holmes & Court the subject of the third licence came up and they agreed that the government should be made aware that they were not happy.

But this is evidently not his only claim to fame. The astronaut's-eye view of the South Pacific shows Australia surrounded by vast stretches of water, and numerous islands to the north, but the country of Briarley's birth seems to have fallen off the face of the planet. Kiwis may rest assured that not only does the place still exist, but that Briarley Investments, his master company there, remains near the top of the Wellington Stock Exchange capitalisation league.

Clearly, though, this is nowhere near big enough to satisfy Briarley. The report tells us that the hologram was made using “an actual size hand-made model of the globe.” Now, that is what ambition can achieve.

Two sides

James White might be excused on identity crisis. The 47-year-old Scottish chartered accountant is managing director of Buzel, the paper, plastics and distribution group, which has concluded a £90m agreed bid for United Parcel.

He is also the non-executive chairman of United Parcel and, in his own words, “an unusually active one”—partly because he lives near Harpenden, just 40 minutes along the M1 from U.P.'s Wellington headquarters.

White, ironically, is credited with boosting U.P.'s image in the City since he took over the part-time job earlier this year. In the process, the share price has nearly doubled—contrary to the interests of the new saviour, Buzel, one might assume.

One may not assume, says White. “It had to happen at a fair price. I didn't want a bargain basement price which might have attracted other people.”

White, formerly with the Lex Service Group, has been at Buzel since 1981, and will be showing his full confidence in its management by taking its shares instead of cash for his own 10,000 Parcel's shares. An unavoidable display of self-belief.

Just how quick politicians can be in grasping a point, however prickly, was demonstrated in yesterday's House of Commons order paper. Liberal MPs Clement, Frenn and Archie Kirkwood, have tabled a motion applauding the Charity Commissioners for granting charitable status to the British Hedgehog Preservation Society. The MPs also congratulate the society on its efforts to secure “a future for upland mobile hedgehogs.”

Observer

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BRYMON

Letters to the Editor

Bad takeover decisions

From the General Manager,
Trade Indemnity

Sir—Your banking correspondent David Lascelles commented on October 25 about the director of the Bank of England responsible for industrial matters and the securities markets, on the subject of takeovers.

It is quite clear that bidders' financing techniques do indeed create difficulties. The most common financial problem, particularly when looking at ailing or failed companies, is that of gearing. When we see gearing imbalances allied to a lack of experience in the business being taken over, we know that there

are a few nasty financial surprises ahead.

We have seen many bad takeover decisions in the recent past and a few more where the "deal" has fallen through at the last minute. There is certainly a case for a public interest concern but how does one persuade the majority of shareholders to take a long term view?

Mr Walker's suggestions were interesting and theoretically helpful, but they might still be swamped by the tremendous power of media advertising. They certainly deserve support however.

D. L. Howson,
12-24, Great Eastern Street, EC2

Pension fund holidays

From the Chairman,
Crossley and Partners

Sir—There is much comment being given to pension fund surpluses. It seems however to be very little constructive advice being proffered to management on this subject.

The principal item that should be identified is real cost. When a company operates a defined benefit pension plan the real cost depends on the benefits provided and is unaffected by the method of funding. The normal cost which emerges from the actuarial funding method and assumptions varies only infrequently when views of long-term demographic factors change. It is only the balance between accrued and projected liabilities and the assets set aside to meet them which fluctuates.

Since the 1950s there has been a 2 per cent positive yield (investment yield over salary growth), for the 1970s there was a negative period, today the positive yields are unusually high due to a low level of inflation and high investment yields. The unusual situation at present is produced by a combination of both on accrued and projected forecasts of liabilities.

As a result of this situation many companies are taking contribution holidays and inflating their profits artificially. The

real cost, however, has not changed nor has the normal cost. Hence any incurred gains or surpluses returned to the company via a contribution holiday should be taken as a credit to company's reserves after appropriate allowance for tax and the normal cost should continue to be charged to profit and loss.

If this attitude is not considered by UK companies profits will be increased only to fall in the future and the real cost of doing business will not be correctly reflected in company accounts.

To avoid this situation management should obtain actuarial valuations designated for their purposes with full gain and loss analyses and financial forecasts. They will then be able to understand the nature of real costs and the definition of normal costs and manage their pension funds more professionally. This will render mandated controls unnecessary.

If British management does not recognise these facts then, as has happened elsewhere in the world, the regulatory authorities will mandate controls. This will mean that the actuarial freedom currently enjoyed will disappear and flexibility will be lost.

Martin J. Crossley,
39 Queen Anne Street, W1

The future of Westland

From the General Secretary,
Association of Professional,
Executive, Clerical and
Computer Staff

Sir—As you state in various reports (October 23) about the future of Westland Helicopters has to be taken very seriously.

Historically, the company has a close relationship with the MOD producing helicopters primarily for defence forces with some exports. When the decision to move into the civil market was taken with the development of the W30, a version of the Lynx helicopter, the company found it faced the same difficulties as had other defence-orientated companies seeking a role in a civil market. The difficulties of the RB211, the problems of the south Clyde, each illustrate the problems of the change in a company's role.

At the same time the world helicopter market has been changing. From dependence on the U.S. for designs, a position is emerging in which Europe will have the ability to produce helicopters for its own defence and civil industries, subject to the co-operation between the four major countries. The French and the Germans have strong links and Westland and Augusta in Italy now have strong links on two major programmes for the future. From 1990 onwards there is a clear market which will be served by Westland and Augusta with helicopters designed in the case of the EH101 for both the defence and the civil market from scratch.

The problem is to sustain Westland in the period up to 1990 when the two major projects will reach completion. You report the attitude of certain Ministers as favouring the ending of a British-owned production of future helicopters. This is typical of the approach that if there is a problem we should walk away from it. If Westland

is taken over by an American company then the possibility of Britain playing a major role in future European helicopter decisions will be frustrated since they will not wish their indigenous industries to be eaten up by the Americans.

There is therefore only one logical future for Westland. It should be linked with Augusta through a series of exchanges to create a joint company which will design and produce helicopters more efficiently than the two separate companies. Only in that context will we retain a helicopter capacity in this country that will be responsive to European needs and one which can participate with our French and German allies in future developments.

Clearly that will need money put into the company by the British Government since Augusta has not got the financial muscle to dominate a joint company and to finance its development alone.

In addition, the Government will have to help sustain Westland in the period until the Indian contract is finalised and, whatever his difficulties are, rising from Trident and the Treasury, the Defence Secretary will have to order more helicopters in the near future. Apex proposed to the Defence Secretary in April that the army requirement for helicopters should be met in the short term by ordering the existing larger Commando helicopter. Subsequently the troop version of the EH101 should be ordered with the Westland W30 being used for lighter tasks. An early order for Commando helicopters should be given both for the benefit of the army which clearly needs a helicopter of that size and as a means of seeing the company through the dip in its activities until 1990.

Ray A. Grantham,
22, Worpole Road, SW19.

Aid for small businesses

From Mr. D. Granville-Jolly

Sir—(The report by Christian Tyler (October 16) on the Lords Select Committee, urging action to revive manufacturing industry, illustrated the myopia of the administration caring about "small" manufacturing enterprises. Unless they are glamorous, high-tech, or bring political kudos in illustrating "help from an up-to-date caring government," small manufacturers (and I mean 10 to 20 people) have little or no chance of tangible aid.

Eighteen months ago my firm designed and developed three steel products. To use common parlance we are "metal bangers." Nothing exotic: no micro-technology: just highly practical. We tried all the avenues for marketing finance and capital for more modern production facilities about which the Government boasts. We received—damn all!

In spite of financial handicaps we have pulled ourselves from a perilously bad position, as a sub-contractor, to one where the products have added £70,000 to £90,000 to our turnover in less than a year and tripled our sales

ledger. All the attendant problems of stock funding, customer credit, production control and handling the increases have been experienced. Now we are dipping a toe, tentatively, into the North Sea to try marketing in our near-neighbours of Europe. (No help doing that, either!)

Yes, we prepared our projections, cash flows etc, as well as we could. The extra £20,000 we needed then would have meant the whole project would have been that much earlier, that much surer, that much more likely to earn foreign currency. In the end we had to settle for basic hunch and slog. We were right. We now project a further 50 per cent growth in 1986—if we can fund it!

Can one really think that their Lordships might be listened to in time for small firms, like mine, to survive, grow and help to regenerate basic skills? My deepening cynicism of the Government's knowledge and ability tells me

D. Granville-Jolly,
Pearson Street, Wollescote,
Stourbridge, W. Midlands.

University links with industry

From Professor Derek Smith,

Sir—Your second leader "University links with industry" (October 25) paid generous tribute to the efficiency of marketing of our university-industry services and the spinning off of British university companies "that trade in their own right." You estimate that our industrial research contract income is "running at about £32m a year" compared to a total budget of about £2bn, a figure of about 1.6 per cent. Even if, as some of us believe, your estimate is now a little low, this can be compared with the higher figure for universities in the U.S. which has been said to lie somewhere between 5 per cent and 7 per cent. As one who has spent the past fifteen years in and about university marketing, I should like to see our figure increase towards, but not necessarily to exceed, the U.S. level, so as to have a more substantial contribution to our economic recovery.

Moreover, I cannot agree with your suggestion that such industrial activity at such a low level could ever constitute a "danger" through the elbow-

ing out of fundamental research and teaching. For one thing, in most well-run universities, the exploitation and marketing of "completed research" and services is carried out by separate units or companies, with a separate staff maintained on a self-support basis to avoid any competition for scarce research or teaching funds.

As for asking industry to "contribute anything other than a small fraction of the total," the university units and companies are not asking for any "contribution" whatsoever. They are offering expertise and facilities that industry needs and would otherwise have to buy elsewhere, on a professionally managed basis at very competitive rates. The directors of these units, and I believe the majority of their vice-chancellors and principals, recognise a responsibility to exploit to the full the industrial potential of our publicly-funded research base, and readers can be satisfied that the now well-established arrangements to do this need not involve any risk to our precious seedcorn. (Professor) Derek Smith,
110, Froggatt, NW3.

Manufacturers' short-term view

From Mr. J. Evans

Sir—It was gratifying to read your leading article (October 25) on university links with industry and the pitfalls of neglecting long-term basic research. In fact, industry could do a great deal more to support longer-term research, were it in a position to take a longer-term view itself. This, manifestly, manufacturing industry is wholly unable to do. After the traumatic decline of the last five years, few manufacturers have the appetite to look much beyond the next few balance sheets. But, given a more stable outlook, there are many arrangements well-tested abroad, which could

allow companies, large and small, to contribute to the funding of longer-term research in the universities to their eventual benefit. One precondition for this would be much greater tax incentives for companies to take the longer view.

As you imply, until such conditions prevail, the Government has a clear duty to ensure that the intellectual infrastructure upon which future success depends, does not deteriorate any further. J. T. Evans,
University of Newcastle upon Tyne,
Hepplewhite Lane,
Newcastle upon Tyne.



Directories don't help

From Mr. J. Clements

Sir—I see that from a date in April letters not bearing the postal code will be delayed. I am a good customer of the Post Office but none of the classified

directories carries postal codes nor do my phone books. Pray where do I get all the codes from?

Joan Clements,
10 Harrow Road,
Fife Road, E16

The EEC and food surpluses

From Mr. J. White

Sir—It may well be that the onrush of the years has made me even more dumb-witted than I had realised, but as the former director of an organisation specialising in economic education I do wish someone would explain to me the workings of the EEC mind in regard to its food surpluses.

It has been my experience that when a trader has a line that is selling badly he cuts the price and puts up the notice "Sale now on." But no, says the EEC "that is all wrong. We must not sell our huge butter surplus to the peoples of the countries that produced it, not even at Christmas as in past years. We can and will sell it to the Soviet Union to restore its depleted strategic reserve. We might sell some of it back to the farmers who produced it, provided they feed it to their cows."

So far as meat is concerned, and its storage costs must be huge (as for butter) the EEC directive is that no one can have that. Presumably it is to be kept frozen until it becomes inedible, as meat does if kept in frozen stores for too long.

There is much talk about the poverty line and the inability of families below it to afford to buy sufficient food. So cut prices while the surpluses last?

Brussels says "No." The EEC attitude to its grain mountain seems to be "Keep it in store. On no account let the starving and hungry millions of Africa get at it." All this seems to me to be the economics of the mad-house but in the view of the sleek well-fed bureaucrats of Brussels perhaps that is where I should be. John Baker White,
Street End Place,
Street End,
Canterbury, Kent.

Let the borrower beware

From Mr. N. Bowles

Sir—The announcement by the Halifax Building Society that it had borrowed £15m on an index-linked basis for a fixed term of 35 years with the objective of passing on these loan funds on similar terms, plus a turn for itself, to individual borrowers and home owners is a major cause for concern.

It is a fact that house prices and house rents do not move up or down evenly across the country. In recent years in real terms in many regions prices have fallen and in other regions prices have sometimes moved above or below the rate of inflation.

It is not clear whether the indexation is upwards only, but if so, borrowers should be warned because history shows

that RPI figures do fall, indeed they have done so for a month or so in recent times. History also shows that to expect indexation, which started in about 1985, to continue for a further 35 years would make in all a period of 85 years which would be one of the longest periods of inflation in the past 300 years. The risk is that individual borrowers might find themselves with a debt burden far and away above the value of their own home and be placed in a financially difficult position. To pay a little now and an unknown amount later is a dangerous thing for a home owner to undertake but, no doubt, a good bargain for the lenders. N. W. Bowles,
1 Uplands Close, SW14.

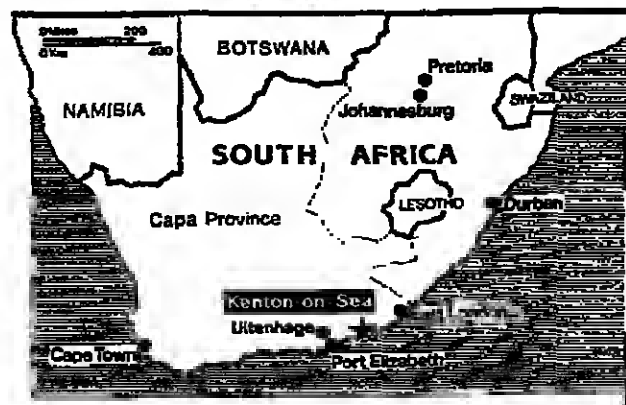
Taxable cash offer

From Mr. P. Naylor

Sir—I have received an unsolicited circular from the chief executive of Elders Ltd. relating the belief that, because of management and organisational skills, his company can revitalise Allied-Lyons, in which I am a shareholder. An enclosed brochure, inter alia, informs me of the outstanding returns to his shareholders resulting presumably from the exercise of those skills.

In the circumstances, it is extraordinary that Mr Elliott

is asking us to accept a taxable cash offer for our shares, rather than offering a share exchange from his predator company. Why should he and his shareholders enjoy the spoils of Allied-Lyons and why should he so cheekily advise us of his intention? I trust that the board of Allied-Lyons will now hasten to inform me of the outstanding returns to its shareholders' support. Philip Naylor,
West Ridge,
Primrose Way,
Brumley, Surrey.



Bob Hutchinson

The black consumer boycott

An eye-opener for South Africa's whites

By Anthony Robinson in Johannesburg

GRAHAM WARREN runs what used to be called, without any kind of embarrassment, a "Kaffirwinkel"—a tiny shop pulled from floor to ceiling with hair straightener, face-whitener and services is carried out by separate units or companies, with a separate staff maintained on a self-support basis to avoid any competition for scarce research or teaching funds.

As for asking industry to "contribute anything other than a small fraction of the total," the university units and companies are not asking for any "contribution" whatsoever. They are offering expertise and facilities that industry needs and would otherwise have to buy elsewhere, on a professionally managed basis at very competitive rates. The directors of these units, and I believe the majority of their vice-chancellors and principals, recognise a responsibility to exploit to the full the industrial potential of our publicly-funded research base, and readers can be satisfied that the now well-established arrangements to do this need not involve any risk to our precious seedcorn. (Professor) Derek Smith,
110, Froggatt, NW3.

In so doing, they were following the example of dozens of other black townships attached to the small, isolated white country towns of the eastern Cape "Platteland" and the over-crowded, sprawling townships like New Brighton, Zwarte Water and Kwa-Ndabeni which surround Port Elizabeth and Uitenhage.

Despite the imposition of the state of emergency on July 21, these consumer boycotts are continuing in many areas as over 400,000 blacks in this troubled province have found that withdrawal of their custom is proving a powerful, if potentially double-edged weapon.

Some traders in Port Elizabeth, where a boycott originally planned for eight weeks is now in its fourth month, report that turnover is 80 per cent down. They forecast a wave of shop closures and bankruptcies for the new year, adding a further downward twist to an economy already hard hit by recession in the local motor and allied industries.

But anguished cries from business have thus far met little response from boycott leaders. They argue that with black unemployment already around 55 per cent, blacks are used to hardship while only whites have the vote and the political leverage to force the Government to stop detentions without trial and army and police brutality.

Suddenly, part of the white

business community has been brought face to face not only with its vulnerability and dependence on the black consumer but also with its political impotence to secure changes from a Government whose repressive policies have for years been tolerated or ignored.

In Kenton-on-Sea when township dwellers turned up outside the local development board office at the end of May with a petition of grievances, the police dispersed the crowd with teargas and rounded up 108 people.

It was then that Graham Warren first got involved by helping the families of those arrested to raise bail. Warren, who grew up in a lonely mining town in the Transvaal where all his friends were black, is 100 per cent dependent on black customers. "They are my customers and I treat them with respect," he said. As a result, his shop was not hit by the boycott.

Steve van der Merwe, a third generation Rhodesian who moved to Kenton five years ago "after 15 years experience of bush war," was not so fortunate. "For five weeks I never made more than R20 a day—my usual turnover is close to a R1,000," he said. He did not know why he had been singled out together with the local butcher and the next door bottle store. Up in the township boycott leaders explained that the boycott targets were those who failed to treat their black customers "like people."

Throughout the boycott, black shoppers have continued to patronise the four gent's outfitters owned by the Watson brothers, four handsome, rugby-playing, committed Christians.

"Cheeky Watson" the eldest of the brothers, first raised eyebrows eight years ago when the Springbok rugby star opted to play with a black rugby team. The brothers, who like many young whites grew up with black children, speak Xhosa, the predominant black language in the area, and have identified closely with black aspirations.

Their stance has not endeared them to the local security police nor to many in the white business community facing bankruptcy while the Watsons continue to do good business. Earlier this month the home of the Watsons' parents was doused in petrol and firebombed, badly injuring two black guards. The brothers are in no doubt that the bombing was the work of right-wing whites enjoying tacit protection from the local security branch.

The aim of the boycott, however, is to draw attention to the grievances of the black community.

At Kenton they have succeeded beyond their most optimistic expectations. As Gladman Johannes, member of the seven-man black community committee, explained: "For the first time the white community has taken an interest in our problems."

Just how basic these problems are came as quite a shock to those members of the white community who participated in a hastily set-up liaison committee. They discovered, that there was only one water tap for the estimated 2,200 inhabitants in the 27-year-old township and that the white municipal garbage tip was situated in the middle of Kenton. They also found out that there was no electricity, no postal service, no garbage disposal, no sewerage and no community centre in the township.

These were among the grievances that the seven-man black community team led by William Makopane, a plumber, presented to the Kenton Liaison Committee on June 18. Within days the committee swung into action to remedy the immediately remediable.

The rubbish dump was removed, four new water taps were installed the rutted main road was regraded and the grievances were rapidly conveyed to the administration board, police headquarters in Port Elizabeth and the education department.

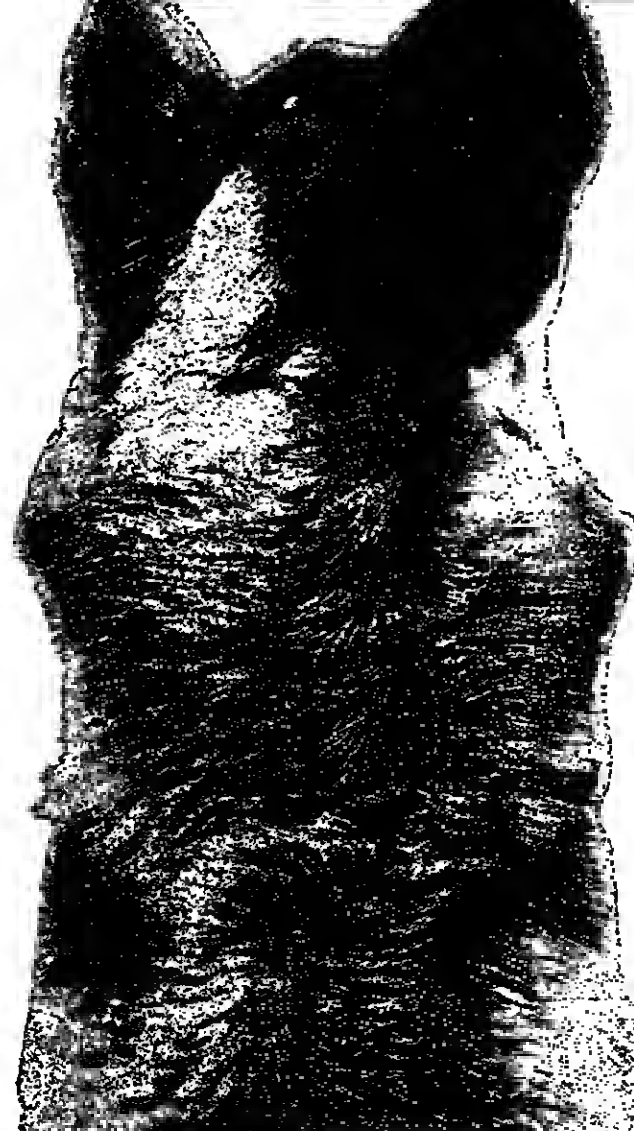
Just as the action committee was getting into its stride however, President Botha declared a state of emergency in 36 magisterial districts, including the district which encompasses Kenton. To their amazement the liaison committee found that four of its black members had been arrested, beaten up at the local police station and then transported to Port Elizabeth's St Albans jail.

Gladman Johannes, one of the four, was released after 14 days. With an extraordinary lack of bitterness he explained how his interrogators had made clear that participation in the work of the liaison committee was what had made him an "agitator" in the eyes of the authorities.

The conclusion that Gladman Johannes has reached is that "the police don't want peace between our two communities."

If the boycott had not galvanised local whites into action, such a thought might never have crossed the minds of those who for years had lived on the comfortable side of the apartheid line.

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Johnson Matthey calls in receiver at Gomba

By Terry Povey in London

JOHNSON Matthey Bankers yesterday ordered receivers to take over the debt-ridden Gomba group of companies owned by Mr Abdul Shamji. By mid-morning, three staff from accountants Price Waterhouse were in the Park Lane headquarters explaining the situation to employees and taking physical control of the daily running of the group.

The move is to ensure maximum recovery on the £18m (£27m) owed to the troubled bank by the property-based Gomba group. Among Gomba's assets are the Duchess, Garrick and Mermaid theatres, a one-third stake in the listed Belgrave Holdings, a handbag factory in Blackburn and the truck maker, Stonefield.

The bank is apparently concerned at the terms of some asset disposals being planned, one of the receivers indicated yesterday.

When JMB collapsed in September 1984 and was rescued by the Bank of England, the Gomba group was its third largest debtor. Since then, two attempts have been made to reschedule or settle the outstanding debt.

The first attempt collapsed in June when Gomba failed to make the initial payment on its debts which had been reorganised into a one-year term loan. A second arrangement was made after a 14-hour meeting that finished at 4 am on September 28.

It was dissatisfaction with the progress of this second arrangement, in which promises were made as to asset disposals, that prompted JMB to move Price Waterhouse into Gomba.

One of their first moves was to conclude yesterday the sale of three of Gomba's subsidiaries to a consortium led by Mr Michael Hendrie, who resigned from an executive position in the group last month. Mr Hendrie has been negotiating for months to try to make a go of the Stonefield truck operation outside of the Gomba framework in a buy-out backed by City institutions.

The three companies, which are not being put into receivership by JMB, are all based at Strood in Kent and are involved in the manufacture of medium weight military vehicles. Key overseas contracts are said to hang on the speedy resolution of the position of these companies.

In addition to seeking maximum recovery for the outstanding debts, the receivers will also be looking into various matters concerning dealings between Gomba and JMB. Although Price Waterhouse conducted its own investigation into Mr Shamji's companies at the request of the Bank of England in the months after the rescue, at that time it only had limited access to the group's financial and other records.

Case to shift some tractor output to UK

Continued from Page 1

bleak, were improved by the new plan.

"They will continue to be an important source for agricultural tractors and construction equipment components for the U.S., Europe and the rest of the world. Studies are being made to outline the plant's specific long range goals as an integral part of our business."

The company was also considering moving the production of two models of skid steer loaders from the U.S. to its plant at Redruth in Cornwall.

Case is already a major manufacturer of tractors in the UK with output last year of 23,300 units. Massey-Ferguson produced 58,300 and Ford 35,900. UK tractor exports were worth \$468m last year. The trade surplus on tractors was £336m.

Minebea speeds merger to thwart foreign bid

By Frank Kane in London

MINEBEA, the Japanese engineering company under threat in the country's first hostile bid by a foreign predator, yesterday took steps which it claimed would strengthen its defensive position.

The company, a leading precision ball-bearing manufacturer, said it was speeding up a planned merger with Kanemori, its direct-sales clothing subsidiary. Mr Takami Takahashi, the Minebea president, claimed the move would increase the percentage of shares under its control from 51 to 53 per cent.

However, in London, Mr Terry Ramsden of Glen International, which has mounted the \$1.4bn bid in partnership with Mr Charles Knapp's Los Angeles-based Trafalgar Holdings, disputed Mr Takahashi's figures. He also claimed that previously unpublished details of the offer would be put today to the Japanese Ministry of Finance.

The dispute over the extent of Minebea's control of its own shares revolves around the treatment of the unconverted warrants which Trafalgar-Glen has used as the springboard for its bid.

Mr Takahashi said that, if his company exercised all rights on present holdings of its paper, its total number of shares in issue would rise to 280m, of which Trafalgar-Glen would hold 19.5 per cent.

Mr Ramsden claimed that the total number after full conversion would be 422m, of which 218m are currently in issue and the rest are unconverted. The holders are known to have control over a large proportion of the unconverted warrants.

Mr Ramsden also pointed last night to the stake of around 65m shares which Minebea is claiming are committed to it but which, he says, appear on the register as "free

floating stock." He takes this to mean uncommitted small shareholders, numbering around 3,000.

"There are contingent details in the plans themselves," Mr Ramsden said. "We are not going to publish full details until we have seen senior directors of the ministry."

Mr Takahashi repeated his outright rejection of the bid and said he would not meet Mr Graham Richards of Glen and Mr Mark Dodge of Trafalgar when they arrived in Japan.

The Kanemori merger, however, was seen as an indication that Minebea might be taking the bid seriously.

It was also reported last night that the Ministry of Finance had said that any acquisition would have to be cleared under the Foreign Exchange Law, which restricts foreign investment in state security-related firms.

Control Data loses \$255m in quarter after special charge

By Paul Taylor in New York

CONTROL DATA, the troubled U.S. computer and computer products group, yesterday reported a \$255.5m, or \$4.85 a share, third-quarter loss partly reflecting a decision to take a \$153.8m special charge to restructure parts of its business.

The Minneapolis-based group, which has been struggling to raise cash and re-focus its operations in the face of a sharp industry downturn, said the third-quarter charge related to "restructuring and reducing the scope of business activities."

Wall Street reacted favourably to the moves pushing Control Data's stock up 1/4 to 1/8 in early trading.

In the year-to-date period, Control Data reported net earnings of \$54.5m, or \$1.41 a share, after taking a \$130.2m special charge related to the group's decision to phase out its IBM "plus compatible" peripheral business. The latest third-quarter loss came on revenues which slipped marginally to \$1.23bn from \$1.24bn a year ago. For the first nine months, the group, which earlier this year was forced to restate its 1984 and 1985 first-half net earnings by the U.S. Securities and Exchange Commission, said it had a net loss of \$209.5m, or \$7.02. This

compared with break-even net earnings of \$900,000, or 1 cent, in the 1984 period on revenues of \$3.6bn.

Control Data, which has recently been selling selected assets, including parts of its commercial credit finance unit and has put its profitable Tickertron electronic-ticketing business on the auction block, said the third-quarter special charge included the anticipated divestiture of its business products operations which manufacture and sell computer disk packs, computer tapes and flexible diskettes.

The group said the decision to divest these businesses was consistent with its strategy of concentrating on its peripheral products research on the high performance, high capacity OEM (original equipment maker) data storage market.

In addition, Control Data said the losses reflected charges related to restructuring parts of its U.S. and international computer services businesses as well as write-downs of its investments in a number of projects including earth energy systems and digital productions - both controversial ventures sponsored by Control Data's chairman, Mr William Norris.

Control Data said its information services and products division posted a \$237.1m pre-tax loss in the last quarter including the charge - results which the company blamed on the downturn in the computer industry, intense price competition and dramatically changing technology.

Operating earnings were also adversely affected by costs associated with lay-offs and the closure of plants. In the year-to-date period, the division posted a \$126.5m pre-tax loss after the \$130.2m charge.

The group's financial services unit posted pre-tax earnings of \$35.7m including \$8.9m in gains from the sale of assets compared with pre-tax earnings of \$13.2m in the 1984 third quarter.

Mr Robert Price, president and chief operating officer, said: "A comprehensive analysis of investments is continuing which may or may not result in additional charges in the fourth quarter. The actions we are taking and will be taking in restructuring and narrowing the scope of our business operations, while adversely affecting our short-term results, should significantly enhance our future profitability."

Phibro-Salomon cuts 600 jobs in commodities unit shake-up

By Terry Doodsworth and Paul Taylor in New York

PHIBRO-SALOMON, the Wall Street investment banking and commodities trading firm, yesterday announced a further massive reorganisation of its commodities unit.

Brothers unit and a name change for the parent company. Next year the company, formed four years ago when Phibro acquired Salomon Brothers for \$554m, will be re-named Salomon Inc - a move which reflects the emergence of Salomon Brothers as the dominant part of the group.

The management reorganisation will follow the retirement at the end of the year of Philip Brothers' two senior executives. Mr Ludwig Jesselson, the chairman of Philip Brothers who helped build the commodities firm into one of the world's trading giants, is to leave active management but will remain a director.

Mr Alan Flacks, the British-born

president and chief executive of Philip Brothers, is leaving after completing the restructuring of the troubled commodities business - a task he undertook 12 months ago. Despite sharply lower revenues the commodities business has staged a strong recovery in earnings this year with nine-month pre-tax profits rising to \$57m from \$7m in 1984.

Mr Gutfreund, who became sole chairman of the parent company last October when Mr David Test, Philip Brothers' former chief executive quit the group, named Mr Martin Kaufman as Philip Brothers chairman and chief executive, and Mr Henry Schachar, as president.

In a country which lacks a tradition of merchant banking on the Anglo-Saxon model and therefore has a limited number of intermediaries for corporate finance, Medicor has enjoyed an unchallenged supremacy. Now that the Cuccia is coming to a close, however, the struggle for power between those who wish to prolong tradition and those who wish to modernise has broken into the open.

Dr Paolo Azzone, of Milan stockbrokers Aletti and Company, commented yesterday: "Our problem is we lack anti-trust laws and companies are still controlled in an undemocratic manner." He said the Cuccia affair was a sign that change was occurring in Italy's financial market.

Nato ministers wary on N-plans

Continued from Page 1

placed by the controversial enhanced radiation or neutron bomb.

However, a new, more accurate and longer-range Lance missile is believed to be on the verge of development in the U.S.

It seems improbable that ministers will take any decision on the Rogers plan this week, if only because they will not want to influence the climate of opinion as the

Dutch Government takes its long deferred decision on Friday on the deployment of cruise missiles.

But Gen Rogers is said to be pressing for a full discussion of his plan as early as possible in the new year.

Meanwhile, Mr Michael Heseltine, the British Defence Secretary, is to meet Mr Casper Weinberger, the U.S. Defence Secretary, after to-

day's session in a final attempt to define the terms under which Britain might participate in the \$200m U.S. Strategic Defence Initiative research programme.

Mr Heseltine is to press Mr Weinberger for guarantees that Britain will get a specific share of the programme, and that UK companies will not be subject to the stringent U.S. rules governing the transfer of technology to third countries.

Commission unveils EMS plans

Continued from Page 1

Finance Minister, welcomed the initiative of the Commission to set monetary affairs into the Treaty, but warned that the move did not go far enough. He said the text should not simply be limited to writing down what was already agreed, but should set out targets for the future to stimulate new programmes of monetary co-operation.

The Commission plan would require member states to treat their exchange rate policy as a matter of common concern, and co-operate within the framework of the EMS.

On the exchange rate mechanism, it simply says those member states would participate "which are

able to assume the resulting obligations."

The changes then seek to spell out the role of the European Currency Unit (Ecu) as "the foundation of the system... used in particular for settlements between the monetary authorities of the member states."

The European Fund for Monetary Co-operation, the body which arranges the necessary currency coordination for the proper functioning of the exchange rate mechanism, would be given "the autonomy necessary for the performance of its tasks." The Commission is also seeking to have a full member on

Tin price troubles depress trading on LME

By Stefan Wagstyl in London

TRADING on the London Metal Exchange, the world's leading metals market, has slumped in the face of the threatened collapse in tin prices.

Traders report that, since the suspension of tin trading on the LME Tuesday, business in other metals is down by an estimated 30 per cent. One trader said: "The markets are dead and quiet, and they will carry on getting quieter until this whole mess is sorted out."

Traders are anxiously awaiting the outcome of an emergency two-day meeting of the International Tin Council, the producers' and consumers' price pact, which starts in London today. The ITC's announcement that it had run out of money to fund its efforts to support the tin price above free market levels sparked the crisis last week.

The buffer stock manager, who manages the ITC's price support scheme, owes an estimated £200m (£255.5m) to LME members and their bankers. He has traded particularly heavily with a handful of traders - but other dealers could also be hit by any default since LME members all have large debts with each other.

However, there are strong indications that member countries will not let the ITC collapse without honouring its obligations. On Sunday, Dr Chiray Na Ayuthaya, Industry Minister in Thailand, the third largest producer after Malaysia and Indonesia, said his country was ready to give more money to the ITC, as long as other nations acted responsibly.

Yesterday, ITC representatives met their bankers to discuss ways of refinancing the buffer stock manager. An immediate step forward would be for the Association of Tin Producing Countries (producer-members of the ITC) to pay over £20m pledged at a meeting last month. Another proposal being canvassed is for member governments to guarantee the ITC's borrowings.

However, the ITC may well decide that even with extra resources its present floor price of the equivalent of 35,000 a tonne is unsustainable. Several of the council's consumer members - who include the UK, other EEC countries, Japan and Canada but not the U.S. which dropped out in 1983 - are likely to argue in favour of lowering the price.

The LME has suspended tin trading until the end of tomorrow. It regulates its own affairs, but it has kept the Bank of England, which has a general responsibility for supervising London markets, informed of events.

IRI moves to oust Italian bank chief

Continued from Page 1

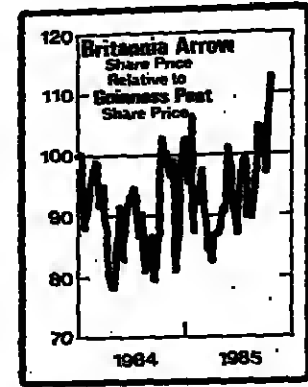
quence of the rise of outside entrepreneurs such as Sig Carlo de Benedetti and in part because the Milan bourse has gone beyond the size which readily permits closed-circuit deal making.

In a country which lacks a tradition of merchant banking on the Anglo-Saxon model and therefore has a limited number of intermediaries for corporate finance, Medicor has enjoyed an unchallenged supremacy. Now that the Cuccia is coming to a close, however, the struggle for power between those who wish to prolong tradition and those who wish to modernise has broken into the open.

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THE LEX COLUMN

Preaching to the converters



The pre-emption right is losing even its most loyal supporters. Last week Mr David Walker of the Bank of England, a friend of the ordinary shareholder if ever there was one, suggested that companies would eventually find their way to the cheapest source of capital and that the placing might work out just a touch cheaper than the rights issue.

His suspicions were duly confirmed yesterday when BTR, a company which takes its responsibilities to shareholders more seriously than most, announced that it was placing £200m of something which looked very much like equity outside its shareholders' register. Most shocking of all, the lead broker to this placing was the patron saint of the pre-emption right, Cazenove & Co.

Not that BTR's existing shareholders have much to complain about. The group is issuing two tranches of low-coupon Eurobonds convertible into equity at a premium of around 5 per cent. The terms have been structured to encourage the earliest possible conversion - BTR has a call option from next June and the conversion premium is tight - but there will be no dilution for existing shareholders.

UK institutions may even be grateful to BTR for this initiative. Many are overweight in the equity and will have the opportunity to scale down their percentage holdings. Certainly yesterday's 9p rise in the BTR share price to 380p looked more like a vote of confidence than a protest by outraged shareholders.

By issuing convertible bonds in the Euro market, BTR has taken advantage of what amounts to a loophole in the London Stock Exchange's listing particulars. A UK company can only place equity without recourse to its existing shareholders if the proceeds are to finance an acquisition. But if it sells Eurobonds which are convertible to ordinary equity next week, it can increase its issued share capital by 5 per cent without so much as notifying its shareholders. As Mr Walker implied last week, the stock exchange restrictions are too inflexible to make sense.

So, with a bid premium already reflected in the Britannia price, yesterday's offer was little more than a recognition of what the market thought Britannia to be worth. As a major fund management group, Britannia may attract a counter-offer although no-one except Guinness Peat seemed too interested when UKPI was hawking around its 25 per cent stake in March.

Britannia should after all be of greater value to Guinness than to almost anyone else. Guinness has abundant tax losses in the UK and U.S. and, assuming full acceptance of the equity offer, would show some boost to earnings per share on the generous terms. But, having been so generous with its paper in the past, Guinness would look very stretched if a more muscular competitor came in and offered cash. It has already conceded this weakness in part by providing £71m from its own resources for the cash alternative. Guinness has the scope to pay down debt through disposals - Singer & Friedlander is unlikely to remain within an enlarged group - but it must be hoping that Britannia shareholders will take its paper. They may do, but not yet.

Since more than 80 per cent of the shares are institutionally owned, utilisation might in any case be unpopular. Institutions are not great investors in unit trusts, and the rush to cash in on Day One could force a liquidation on unfavourable terms. As the offer is, unusually, at a fixed price, shareholders might do as well to sit tight and accept if the market falls between now and the closing date. But they have an interesting dilemma on their hands. If they accept, they sanction the precedent of offering less than net asset value for the other trusts in their portfolio; a precedent which will only pay off if it attracts enough marginal bidders to drag up the rest of the sector on bid speculation.

While the London tin market remains shut, until Thursday at least, members of the International Tin Council meet today to pick up the pieces after ITC's collapse last week. Before the market reopens, the council will have to reach agreement with its creditors - both bankers and banks - which will require confidence in its ability to trade without going bankrupt.

Much as they may dislike it, the sovereign members of the council might conclude that there is no alternative to stamping up more cash. It is, after all, the free market's revenge - the producer countries have for years had the benefit of tin prices higher than would be justified by any measure of world demand, and the payoff has now arrived.

Once the market reopens, more people will have cause to worry than just the creditors of ITC. Even if the council continues to act as a buffer of prices, it will have to set its trading floor well below the £8,000 or so per tonne of last week. Woe betide anyone who is long of tin.

Guinness/Britannia

Guinness Peat's offer for Britannia Arrow was probably the least surprising of yesterday morning's clutch of UK bid announcements. Guinness has never disguised its interest in owning the whole of Britannia, and the stock market knew exactly what to think when it

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Algeria	20	68	Denmark	10	50	Malawi	20	68	Sierra Leone	25	77
Algeria	22	72	Egypt	22	72	Mali	25	77	Somalia	25	77
Algeria	22	72	France	18	64	Mali	25	77	Sudan	25	77
Algeria	22	72	Germany	15	59	Mali	25	77	Tanzania	25	77
Algeria	22	72	Greece	18	64	Mali	25	77	Tanzania	25	77
Algeria	22	72	Italy	18	64	Mali	25	77	Tanzania	25	77
Algeria	22	72	Japan	18	64	Mali	25	77	Tanzania	25	77
Algeria	22	72	Kenya	20	68	Mali	25	77	Tanzania	25	77
Algeria	22	72	Libya	20	68	Mali	25	77	Tanzania	25	77
Algeria	22	72	Norway	10	50	Mali	25	77	Tanzania	25	77
Algeria	22	72	Spain	18	64	Mali	25	77	Tanzania	25	77
Algeria	22	72	Sweden	10	50	Mali	25	77	Tanzania	25	77
Algeria	22	72	Switzerland	10	50	Mali	25	77	Tanzania	25	77
Algeria	22	72	U.S.A.	18	64	Mali	25	77	Tanzania	25	77
Algeria	22	72	U.K.	15	59	Mali	25	77	Tanzania	25	77
Algeria	22	72	Yugoslavia	15	59	Mali	25	77	Tanzania	25	77
Algeria	22	72	Zambia	20	68	Mali	25	77	Tanzania	25	77
Algeria	22	72	Zimbabwe	20	68	Mali	25	77	Tanzania	25	77

Rebroadcast at midday yesterday:
C-Cloudy D-Dry F-Fog P-Pog S-Snow
S-Show T-Thunder

SECTION III

FINANCIAL TIMES SURVEY

Substantial foreign capital will be needed to renovate the city and modernise industry after decades of neglect while the economy expanded

A dynamo run into the ground

By David Dodwell

IT DOES not take long among the 1m-odd window shoppers that every day buffet each other down Nanjing Ln, Shanghai's main shopping street, to discover the vital energy latent in China's greatest city.

Equally, one soon discovers that Shanghai is a city locked in its past, tied to a history of which it is proud, and at the same time embarrassed. Aware that Shanghai before the Communist victory in 1949 was known as the Paris of the Orient and more wealthy than any other city in Asia, its people are haunted by the shocking corruption that was part of this period.

Though it is home of some of the finest buildings in Asia, particularly those along Zhongshan Donglu (what used to be called the Bund), successive administrations have allowed this unique heritage to fall into ruin. Were it not for the pristine splendour of Shanghai's city hall—once the headquarters of the Hongkong and Shanghai Banking Corporation—one could be forgiven for thinking the neglect was accidental.

Because Shanghai was such a force before 1949, there is nowhere in China where efforts have been greater to demonstrate the superiority of socialist bureaucratic economics. It was humbling to some and alarming to others during the fraught Sino-British negotiations over the return of Hong Kong to Chinese sovereignty to listen to cloistered party

loyalists trying to calm the fears of Hong Kong people by pointing to the success that had been made of Shanghai under socialist rule.

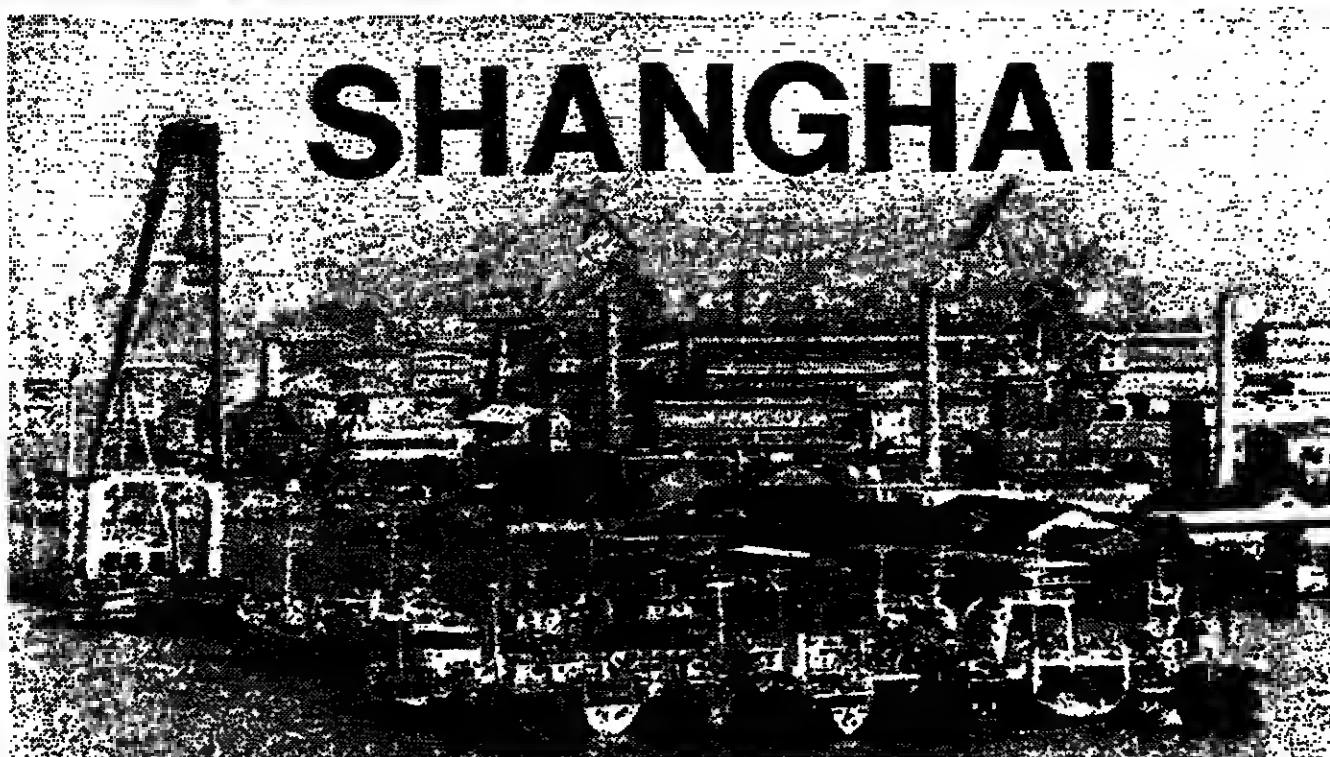
They did not need to listen to many responses to realise they ought to try a different tack.

Many Chinese seemed puzzled, even hurt, by these responses. For many foreigners, Shanghai is a city that has apparently stood still since the 1940s, but in local eyes it has been the catalytic centre for much economic growth. For any Chinese consumer, the "Made in Shanghai" label is synonymous with high quality. While in 1949 it was a city mainly of commerce and trade, today it is an industrial leader.

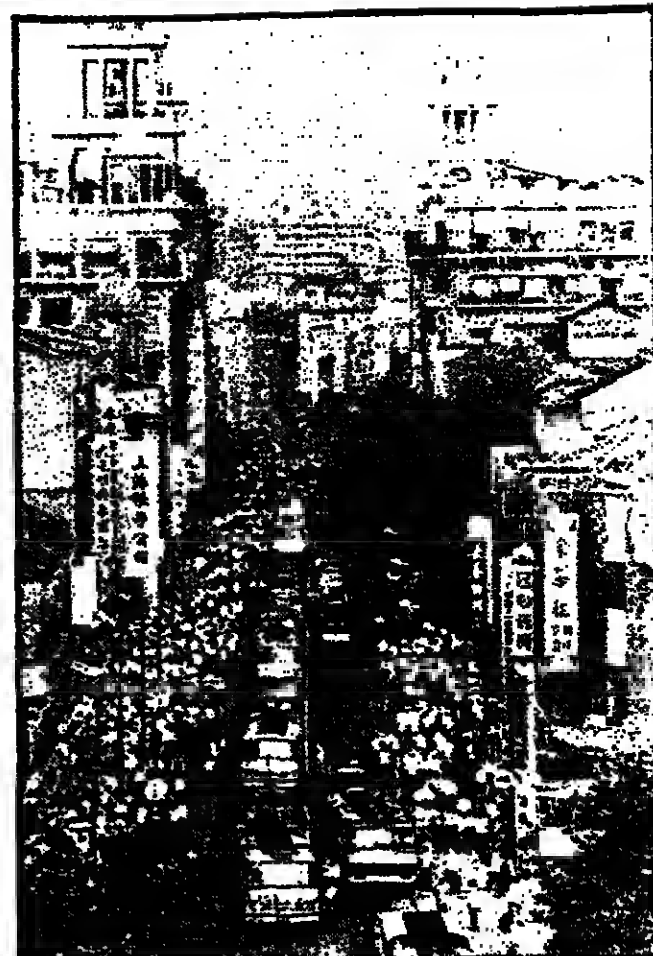
The city is today the most powerful economic dynamo in the country. It boasts advanced industries and skilled workers. It accounts for one-sixth of China's national income, one-quarter of its foreign trade, and more than a third of the port tonnage handled in China. But it is a city that has been run into the ground.

Industrial growth since 1949 has occurred with virtually no attention to Shanghai's infrastructure. As a result, heavy industries sited close to the city centre are pumping toxic wastes into its rudimentary 19th century sewerage systems. Traffic congestion is chronic, and living conditions for the 12m population are often abysmal.

Even Shanghai's industries have been run into the ground. About half of the city's industrial equipment pre-dates 1950, with a further 33 per cent installed before 1960. The port, which handles more than 100m tonnes of cargo a year, is hopelessly overstretched. Early



Ageing industrial buildings crowd the waterfront, where ships queue for an average of two months for berths. The city's characteristic congestion is also apparent in Nanjing Ln (right), the main shopping street, where shoppers and traffic compete for space



Survey pictures: Glyn Genn

In October, more than 160 vessels were waiting in the Yangtze for berthing space—and waiting time averages two months.

"Successive administrations have used the city's resources to the point of exhaustion," one experienced diplomat noted. "And now they are faced with the problem of tackling all of the problems at once."

A sense of decline has been aggravated as cities elsewhere on China's coast and in its interior have been allowed to establish direct commercial links with the outside world. Shanghai's exports have stagnated at about US\$3.5bn since 1979, as a steady but unimpressive growth in locally-produced exports has been neutralised by a decline in entrepot business.

This decision that urgent remedial action was needed came at the end of last year when a study group headed by Premier Zhao Ziyang came to assess the pleas by the city's then mayor, Wang Baoshan. Premier Zhao accounted that for too many years, Shanghai had been used as a milchcow by the central government.

The city was allowed to

retain a larger share of the earnings that are passed on to Peking, and was given clearance to divert more funds into repairing the infrastructure. It was also granted Yuan 200m a year for industrial renovation.

Mayor Jiang Zemin, who succeeded Wang four months ago, faces the thankless task of pushing reform through the most entrenched metropolitan bureaucracy in China.

The bureaucracy is the more of a minefield because of the constant tension between proud and insular local officials, and those from Peking intent on maintaining central control over the city. Paradoxically, Shanghai is too important to state coffers for the central government to allow big

decisions to be made outside Peking.

This explains why Jiang has been picked "to ride the tiger" at the head of the city's administration. He is Peking's man, with direct backing from Premier Zhao, but is also well aware that if he is to succeed, he must establish local credentials. He was born in nearby Jiangsu province, educated at Shanghai's Jiaotong University, and spent a chunk of his working life in the city.

He is one of a growing group of technically trained officials who have taken the administrative reins in provinces and municipalities across China. The development plan drawn up early this year sees improvement of the infrastructure and modernisation of industry go-

ing hand in hand. New sewerage and fresh water systems are being planned. Tunnels, bridges, elevated roads and one-way systems are being planned to improve traffic circulation.

An underground railway—criticised by many as too expensive and technically too difficult in Shanghai's waterlogged subsoil—is also being proposed. A coal-gas plant to bring piped gas to homes throughout the city is soon to be built. Big housing projects are under way in the suburbs.

City planners say industrial development will hinge on high technology ventures, with factories using less sophisticated techniques being transferred to other cities. Factories will be moved out of the city centre and into industrial zones around the periphery.

Substantial foreign capital will be needed for this modernisation, but how it will be generated in sufficient quantities has yet to be explained. The tightening of central control over access to foreign exchange will not make the task easier, though there are several reasons why Shanghai should fare better than other cities in China:

● It will remain a stronger magnet for foreign investment

than most cities, mainly because of the technical strength of its workforce and its strategic location for exporting and for tapping resources in China's interior.

● The city has in recent years used its foreign exchange resources more sparingly than elsewhere. These accumulated funds will provide valuable padding at a time when quotas from Peking are being cut.

● A large community of overseas Chinese with family roots in Shanghai have been willing to reinvest in their home city on a substantial scale. It is no accident that Hong Kong, adopted home of large numbers of Shanghai's largest trading partner (accounting for 18 per cent of trade) and the city's largest source of foreign investment.

The support of Hong Kong patriots has been a mixed blessing, since most of the ventures they have been linked with involve hotels, property development or the quota-blighted tex-

tile sector. The city's major foreign ventures—whether with Volkswagen of West Germany to manufacture the Santana car; the Baoshan steel plant; the Pilkington plate-glass plant; or the deal with McDonnell Douglas of the U.S. to manufacture passenger aircraft—have been drawn up with partners further afield.

It is these ventures that are likely to provide the stimulus for the technological upgrading of Shanghai's industry.

The link with Hong Kong is nevertheless likely to remain strong. Many in Shanghai feel that the British territory on China's southern coast has usurped its pre-eminent role, and an important stimulus for growth in the longer term may be a keenness to recover that role. If this gives impetus to China's policy of "opening up to the outside world" there would probably be few in Hong Kong who would object in the challenge.

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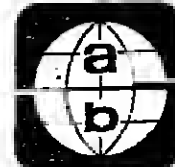
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Shanghai 2

PROFILE:
MAYOR JIANG ZEMIN

Cautious move to reforms

PEKING'S recent appointee as mayor of Shanghai, Jiang Zemin, has made great play of being a local and a man with the common touch. Early reports showed him shoving melon peel as part of a city clean-up campaign, and directing flood control efforts in the wake of summer typhoon rains.

They even had him chatting in Shanghai dialect with street vendors—which was stretching the truth since he speaks only fractured Shanghaiese. This image building not only suits Jiang's flamboyant temperament, but is probably essential if he is to hold down one of the most demanding jobs in China. In a city that has been the model of socialist bureaucratic economics and a home of state industries, he has the unenviable task of preaching greater local autonomy and trimming bureaucratic excess. After 30 years of preoccupation with industrial investment, he has the controversial job of restoring an infrastructure on the point of collapse.

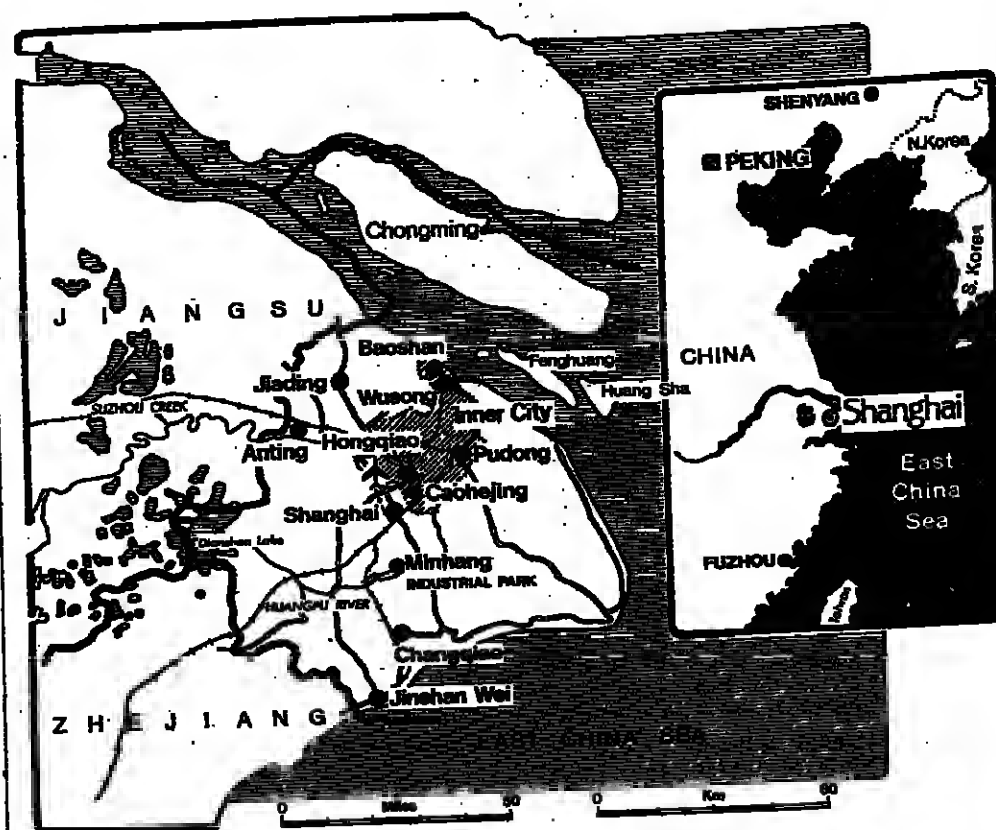
He heads a city that is on the one hand so important to China that economic planning is kept firmly under Peking control, and on the other is fiercely proud, and independent. He is not a local, but from Peking, to know that without a local constituency from which to draw support he is likely to fall in an undignified heap between two stools.

Jiang is better equipped than most to reconcile these forces. He has never worked as a general administrator but his range of experience in industry, research and central government command claims to be a Jack-of-all-Trades. With the support of Premier Zhao Ziyang in Peking, where Jiang last worked as Minister of Electronics, his back is as safe as can be. In Shanghai he may not be a local but can claim to be familiar with the city. He was born at Yangzhou, in Jiangsu close to where the Yangtze River, but he was educated in power engineering at Shanghai's Jiaotong University, and worked after 1949 in Shanghai factories. In 1962, after working in Changchun and in the Soviet Union, he returned to Shanghai as head of a research institute.

If he manages to build up a local constituency, he will have succeeded where Wang Baoshan, his predecessor, failed. Views on Wang's achievements had begun to mellow before he stepped down. He is credited with persuading Peking to provide Shanghai with more funds. His failure to implement significant change is attributed to resistance from senior party officials. It is no accident that as he stepped down, so a number of other senior Shanghai officials have also left. Jiang is keen to emphasise continuity. The development plan drawn up by Wang provides the blueprint Jiang intends to follow.

Jiang has moved cautiously. He is well aware of the headwinds ahead, where he must challenge local vested interests and cut through one of the most treacherous bureaucratic thickets in China. Observers and officials do not underestimate his skills, but few are taking bets on whether he will succeed.

David Dodwell



At peak travel hours, 11 people stand in every sq. metre of bus space in this crowded city

Social problems on a grand scale

EACH MORNING at about 6.30 the chaos begins. Impatient bell-ringing cyclists push through a mass of pedestrians forced on to the road by the crush of a grossly overcrowded footpath. Equally impatient bus drivers attempt to get their way by driving straight at the pedestrians and cyclists. Such is the congestion of Shanghai, where each resident has 2 sq metres (21.5 sq ft) of living space as 12m people fight for a place in the smoke and buses carry 16m passengers during the peak hour rush.

Shanghai has social problems on a grand scale. There is not enough housing, causing doubling and tripling up of families in already overcrowded circumstances. Transport infrastructure cannot cope with the load. The city's narrow and winding streets are overcrowded by 3.5m bicycles and 105,000 motor vehicles, increasing by 10 per cent each year. Transport authorities have calculated that at peak hour, 11 people stand in each square metre of bus space. Those authorities tried to put 22 shoes in a square metre and found that they would not fit.

The city's subway plans have stalled. Planning began in 1958, was halted during the Cultural Revolution years and started again in 1978. The Municipal Engineering Administration Bureau has just submitted plans for a redesigned Yunnan 2bn network covering 10km. Some 40 per cent of the city's rainfall is acid rain, and the Environmental Protection Bureau says both the frequency of falls and the acid content are increasing. The bureau suggests the city might be the noisiest in the world, with a cacophony of bicycle bell-ringing, car horns and barge fog-horn blasts, as well as noisy factories in residential areas.

In spite of the catalogue of problems and the municipal government's drive towards infrastructure improvement, opportunities for foreign business involvement in the overhaul of Shanghai are limited. The task involves developing roads, improving the telephone system, tunneling under or

bridging rivers, and building high-rise housing complexes. But these generate little or no foreign exchange income, so the Government is reluctant to make the foreign exchange commitment to interest overseas investors. Instead, the city has relied on benevolence. The World Bank has provided U.S.\$100m in loans for liquid waste control and the U.S. Commerce Ministry, through a trade development project, has given \$250,000 for environmental protection. Osaka, in Japan, will give an unspecified sum for air pollution ways of raising money to finance internal expansion of telecommunications. One is to issue bonds, another to collect fees in advance from subscribers.

There are plenty of subscribers to extract payments from. At the start of 1984 there was a waiting list of 18,000 and during the year 15,700 phones were installed. This year about 17,000 phones will be installed but the waiting list has grown to 50,000.

"Next year we hope to have 50,000 new installations but by the end of the year the waiting list will be 100,000. The more we install the more they want," Cao said.

A successful means of raising local capital has been through payments by large factories for network expansion in their region. The telecommunications administration received Rmb¥ 53m from the Baoshan Iron and Steel plant for the installation of internal and external telephone systems. In return, the administration gave Baoshan priority service and will charge the plant cut-price rates for calls to other provinces.

How tightened foreign exchange control will affect the administration's plans for such things as fibre optic and microwave communications systems remains to be seen. Cao says: "We will have foreign exchange from local government. The projects for the seventh five-year Plan have been earmarked. A few smaller projects could be affected."

Another crucial problem for development is the balancing of the push for improved production quality with the need for sustained action against environmental problems that threaten to strangle the city and pose a serious threat to the quality of life.

The Environmental Protection Bureau's head of foreign affairs, Cao Dexing, warned that unless the drive to clean up liquid waste disposal is continued then the Huangpu River will be a badly polluted and filthy Suzhou Creek. This is a victim of both human and industrial waste, with factories discharging oil, copper and cyanide.

Infrastructure

ROBERT THOMSON

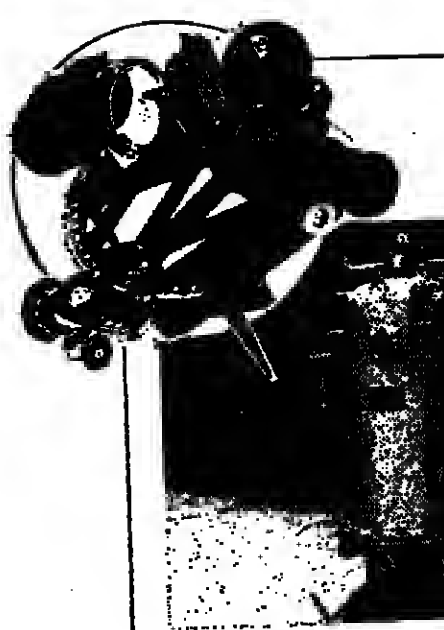
tion control and the Australian Development Assistance Bureau is funding a team of researchers devising urban renewal projects. The Australian project provides a good example of the difficulty of making money out of infrastructure development. Part of the grant has been assigned to design and installation of a traffic control system. A transport specialist estimated that Shanghai's "saturation flow"—the time taken for the average car to move when a traffic light turns green—is 12 seconds, whereas in Sydney it is 1.5 seconds.

The Australians have given the city 28 intersection micro-processors, which monitor traffic flow and allow lights to be changed accordingly. But they have been held up in attempts to convince Shanghai's Public Security Bureau that it must pay for another 200 such devices it wants from Australian companies.

Gao Yangshi, deputy chief administrator of the Postal and Telecommunication Administration of Shanghai, says the city would be reluctant to engage in joint ventures to update its communications network, but is like most Chinese departments, interested in soft loans from overseas to buy foreign equipment.

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Funding foreigners

SITCO is a "multifunctional corporation," says Chen Rong, executive vice-president of the Shanghai Investment and Trust Corporation (SITCO).

Multifunctional seems to be a buzz-word in the organisation. But not without reason since Shanghai's municipal bureaucracy is a maze of single-function departments, and pays a high price as a result.

Sitco is first and foremost a financial institution, providing funds for foreign ventures in Shanghai, raising loans and providing guarantees. By the end of the year, plans will be laid for its first international bond issue, probably on the Tokyo market.

The corporation, set up in 1979 with authorised capital of Yuan 500m, has also been active importing capital equipment and high technology knowledge, in local property development, has taken equity stakes in Shanghai ventures and provides consultancy, feasibility and legal services to potential foreign investors. It is headed by Liu Jingli, a former capitalist who has



Chen Rong, executive vice-president of Shanghai Investment and Trust Company

Shanghai 3

Deals delay
in currency
confusionForeign
Investment
DAVID DODWELL

"INVESTING in China is a punter's game," comments Mr. Patrick Furlong, who heads Pilkington's Yuan 430m joint venture in Shanghai to make plate glass by the end of 1987. "The Chinese Government has allowed itself to see the project as one that makes a profit. There are moments when I wonder how it is possible, but I remain optimistic because I believe the Government still wants it to be successful."

Judging by the amount of investment interest that remains over China, the business world still has punters aplenty. Most share Mr. Furlong's equivocal views — though few are willing to talk openly about them, for fear of spilling business prospects.

Investment in Shanghai offers attractions rarely found elsewhere in China, but at the same time has its share of unique frustrations. The city has skilled labour and industrial expertise. It has a business community with a sophisticated knowledge of foreign trade, and well-established commercial links with the whole of China's interior.

In contrast, it has a Byzantine bureaucracy, and most of its factories are creaking with old age. Its infrastructure is close to collapse. Shanghai businessmen are notorious for driving hard bargains, which make joint venture negotiations protracted. Shanghai officials are unrepentant about their "sharp" image. Mayor Jiang Zemin is as blunt as most: "Foreign investors do not want to do business with fools, do they? Negotiations may be slow at first, but when an agreement has been reached, then it usually works well."

The recent tightening of central control over fast-depleting foreign exchange reserves has thrown into confusion the ground rules for doing business in China. Shanghai, business in China, Shanghai, with substantial conserved

funds of its own, has been affected less severely than most. It has won an extra Yuan 200m a year from state funds for rejuvenation of industry, and has been allowed to retain a significantly larger share of the earnings of its industry, so that work can begin on its growing infrastructure. The squeeze has nevertheless been as apparent in recent months as it has elsewhere.

Early in October, a list of 12 items no longer eligible for foreign investment was published. They include cotton textiles, consumer electronics, assembly lines, buses, elevators, and a range of "white goods." The targets have been products that are undermining demand for home-grown goods, ventures that involve the long-term import of sub-assemblies or components, or non-essential consumer goods.

"We had an import fever last year," said Chen Rong, executive vice-president of the Shanghai Investment and Trust Corporation (SITCO). "Too much was imported. It did not enhance China's modernisation efforts, and it hit our own industries."

Many Chinese officials feel they have been short-changed on a number of deals, getting second-hand equipment and finding themselves locked into a long-term obligation to import expensive components or raw materials.

For many foreign executives, such tightening is understandable. Confusion more often focuses on the unwritten changes taking place. Despite claims from the Bank of China and other government officials to the contrary, foreign executives are talking of a much more literal enforcement of the requirement that the foreign exchange costs of a venture are covered by foreign exchange earnings.

Import substitution deals are still possible in official terms, but in practice are proving impossible to agree. More exotic and imaginative arrangements, like that by 3M of the U.S. to cover the foreign exchange cost of a manufacturing venture for the local market by exporting Chinese goods, have also



The importance of the McDonnell Douglas venture with Shanghai has put it outside foreign exchange rules

founded as China's powerful import-export corporations have blocked what they see as moves undermining their interests.

One success story is Shanghai Foxboro, a joint venture making control systems for China's oil, coal, chemicals, power and other heavy industries. Foxboro of the U.S. has been allowed to fund the import of electronic components by exporting products made by its joint venture partner, and by taking a commission on Foxboro products sold elsewhere in China.

Whether Foxboro will be able to remit its profits in foreign exchange is a matter that will take some time to resolve, since it plans to plough back profits for the first five years.

Another model joint venture, that between the Shanghai Elevator Works and Schindler of Switzerland, seems likely to succeed on the basis of the venture exporting 20 per cent of the lifts it manufactures.

At Shanghai United Woollens, the country's joint venture, future growth is closely linked with export performance. The venture, with a Hong Kong partner, exports high quality sweaters, made from angora, cashmere and camelhair wool. Export earnings pay for the import of high-technology knitting equipment, and of lambs-wool to make sweaters for the domestic market.

Over 1983 and 1984, foreign exchange earnings were strong, but tables have turned over the past year. Quota limits in the U.S., and difficulties making in-

roads into the Japanese market, have stalled export growth at a time when domestic prices for cashmere and angora are soaring.

A critical insight from several foreign bankers and legal advisers is that the closer fiscal control of foreign exchange being enforced would make ventures like that with Foxboro or 3M either impossible or unviable today. In general, joint venture partners must make a foreign exchange surplus.

Cutting across all of these rules are those instances where the Chinese Government decides a project is of such importance that special arrangements can be made. Such is the case with the McDonnell Douglas deal with the Shanghai Aviation Industrial Corporation.

Current experience of prospective foreign investors in China is that almost all negotiations are "on hold" until the country's foreign exchange picture becomes clearer.

This suggests that some of the controls in force will ease in due course. The general view is, nevertheless, that tighter overall fiscal control from Peking is here for some time.

In a city like Shanghai, with an urgent need to replace ageing industrial equipment, and a determination to establish itself as a high-technology centre for the rest of China, there seems little doubt that plenty of joint ventures will continue to be agreed.

Whether they prove profitable has to be seen.

PATRIOTIC CONSTRUCTION CORP

Capitalist finds a patriotic niche

BY DAVID DODWELL

CHEN WUQING is rich by Chinese standards, a capitalist, and was trained at the Massachusetts Institute of Technology in the U.S. and Imperial College, London. But it is as a patriot that he has found a new niche late in life inside Deng Xiaoping's China.

As vice-president of Shanghai's Patriotic Construction Corporation (Patco), he sees himself "filling the gaps" in China's planned economy—at a healthy profit to the 1,200 other patriots who in 1979 invested a total of Yuan 57m in the enterprise. The company's registered capital has since swollen to Yuan 200m.

"When the Government returned property to people who had been capitalists up to 1949 it was impossible to spend the money right away," Chen recalled. "A number of people pooled their money to operate this company."

The main moving force was Liu Jingli, a textile boss up to 1949 and now chairman of the corporation.

Patco employs close to 8,000 people, has investments in more than 100 ventures, and has 100 joint ventures with businessmen in Hong Kong. It has invested heavily in property, making a substantial

profit on the construction and sale of 15-storey apartment buildings for overseas Chinese, and now building two 30-storey buildings for sale as offices and apartments.

It has also invested in industry—its highest involvement being in a shoe-making factory employing 1,800—and has a 25 per cent stake in the Jinjiang, a luxury passenger liner that plies twice a month between Hong Kong and Shanghai.

Patco is entitled to export directly from its factories without having to go through China's state-run import and export corporations. It can arrange joint ventures with manufacturers in China's interior and provide consultancy services to foreign companies seeking business partners in the region.

In short, it has won the power to cut a swathe through the bureaucratic thickets that so frustrate efforts by foreign businessmen to trade with or invest in China.

Most links have been with overseas Chinese — mainly in Hong Kong, but others are in South-east Asia and the U.S. About 100 of the original investors in Patco were resident



Chen Wuqing, vice-president of Patco

in Hong Kong. Chen insists however that this need not be the case, and that Patco can work equally effectively with non-Chinese investors overseas.

At the age of 63, Chen harbours little open resentment for the humiliations that came in the wake of communist take-over in 1949. In spite of being

forced to work for 10 years on a lathe in a factory that once belonged to his father, he says he was never bored. After university training as a mechanical engineer, the manual work was almost always interesting, he says.

He shows no regrets over losing the fortune he would have inherited from his father. "My education was the best asset my father left me," he says. Chen now earns about Yuan 2,500 a year—modest by international standards, but more than twice the average salary in Shanghai.

His strength is that he is one of a tiny handful of people in China who have a practical business knowledge. "We have run companies, and in particular have experience of doing business with businessmen from overseas."

That knowledge shows little sign of having dulled after more than 30 years of disuse. While "filling the gaps," Chen and his fellow patriots attribute their successes to flexibility, efficiency and good faith.

While China's state-run enterprises remain enmeshed by the country's bureaucracies, continued success, seems almost certain.

McDONNELL DOUGLAS VENTURE

BY DAVID DODWELL

Costly commitment takes flight

THE ONLY things flying along the tarmac at the Shanghai Aviation Industrial Corporation's plant north of Shanghai at the moment are buses. By January the first kit to assemble McDonnell Douglas MD-82 aircraft will have arrived, providing what the Chinese authorities hope will be the foundation of a modernised civil aviation industry in China.

The corporation (Saic) took six years to reach agreement with McDonnell Douglas on a U.S.\$600m deal to buy and assemble 25 kits. Most of its 10,000 workforce until now has been making buses, trucks and vans. Since 1970 it has repaired civilian aircraft and built three prototype Y10 aircraft.

The Y10 has been designed and built independently by China. While one has been

undergoing tests for three years, the aircraft's future depends on how happy a marriage Saic consummates with McDonnell Douglas.

For a country that is anxious about dipping into its foreign exchange reserves, the co-production agreement (it is conspicuously not a joint equity venture) is a costly one. Saic is committed by buying and completing MD-82, McDonnell Douglas's successor to the DC-9, and a further 25 kits each costing about U.S.\$22m. It has an option to buy a further 15.

The Government seems willing to accept this high cost for several reasons. First McDonnell Douglas has committed itself to providing extensive training of Saic staff in Shanghai and in the U.S. Second, a range of sub-assemblies will be fabricated

in Shanghai, including landing-gear doors (for which Saic has had a contract since 1979), nose fuselages, horizontal stabilisers and cabin floors.

Most important, the agreement provides for Saic staff to work with engineers from McDonnell Douglas and Aeritalia of Italy on a three-year "technology readiness programme" aimed at manufacturing a new propfan aircraft.

Engineers believe a propfan system can be designed by the 1990s for short-haul aircraft carrying up to 150 passengers. Such an aircraft would have potential in China, with its lattice-work of short-haul routes. The fate of the home-grown Y10 aircraft seems likely to depend on the success or failure of the project.

For McDonnell Douglas, the venture marks a breakthrough into a market dominated by Boeing. Two MD-82s have been in service from Shanghai since 1983 but few other successes have been recorded by comparison with its main competitor, the Boeing 737. The aircraft is nevertheless ideal according to Hu Dingzhou, vice-president of Saic.

"Our operation records show that it is an excellent aircraft for domestic routes and short to medium-range use. Operation costs have been quite low," he says.

He expects two MD-82s to be assembled next year, going into service by early 1987. Assembly will accelerate as staff become more experienced, with seven or eight aircraft being made in 1990 and 1991.

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Human talent will eclipse old stock

Industry

STEVEN BUTLER

IT IS no small irony that Shanghai, a modern and sophisticated city, seems to be lagging behind when the Chinese nation begins to plough ahead with industrial modernisation.

Shanghai this year lost its reigning status as China's pre-eminent industrial centre. In the first six months, neighbouring Jiangsu Province surpassed Shanghai's industrial output.

The loss is symptomatic of problems and opportunities facing Shanghai. The city boasts the most mature, sophisticated and highly integrated industrial base in China. In part because of its maturity, city officials concede that it cannot compete with provinces that are expanding by over 20 per cent each year.

The economy is hemmed in by long-term neglect of the city's infrastructure, which is crumbling. Factories shut down on a rotating basis to conserve electricity. They remain idle while raw materials and supplies sit in ships waiting to unload.

But Shanghai's slower industrial growth will hardly affect its critical role in the modernisation of China. Service sectors are expanding rapidly, and as it climbs higher on the developmental ladder, Shanghai's human capital should begin to eclipse the city's immense stock of physical capital.

Shanghai has always been the place where buyers throughout China came for high quality consumer and producer goods. Increasingly, factories throughout the nation are paying to use Shanghai's technology. They are sharing profits with companies to manufacture and sell products that bear a famous Shanghai trademark.

Shanghai factories are investing in and selling their outmoded equipment to the interior of China—all following the national leader Deng Xiaoping's reform policies.

Shanghai has come under attack for dragging its feet on the economic reforms and the reasons are easy to grasp.

Nowhere does China boast such an impressive monument to socialist central planning. In 1949, Shanghai had a thin industrial base concentrated in

textiles, cereal processing, cigarettes, paper, leather products, soap and matches.

Today it produces 12.9 per cent of China's steel, 13.9 per cent of the nation's bicycles, 14.2 per cent of machine tools, 29.1 per cent of chemical fibres, 27.6 per cent of televisions, and 15.2 per cent of plastics, with a gross industrial output in 1984 of Yuan 76.65bn.

But with socialist planning has come an immovable legacy of bureaucracy. "Shanghai's bureaucracy is not worse than elsewhere in China," says a western resident. "It is just more encompassing."

Change, nonetheless, is coming. The city has spent more than US\$2bn annually in recent years to renovate industries. Half the city's industrial equipment dates to before the 1949 revolution, while a third was installed in the 1950s.

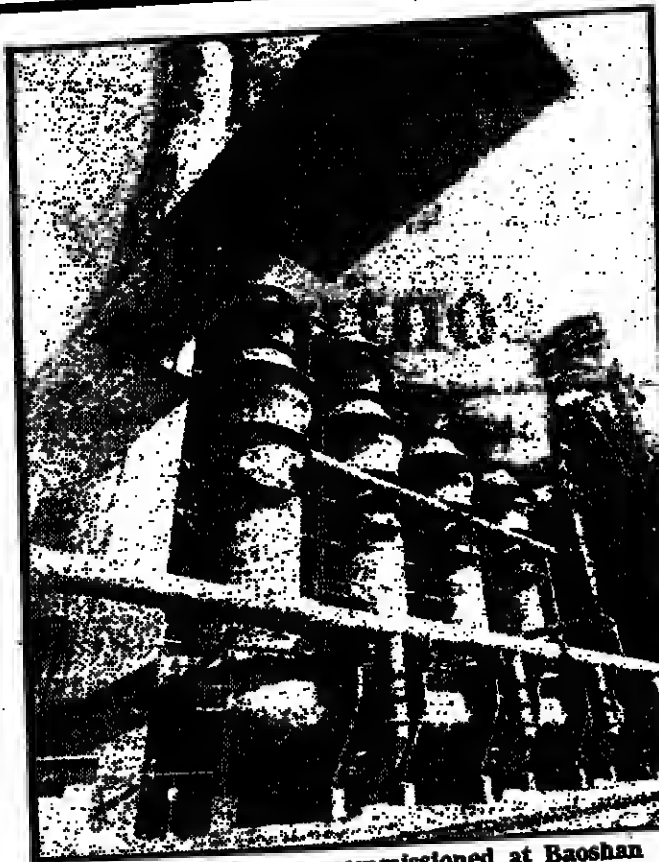
Some factories, especially in export industries, have a green light to comb the world for the best equipment.

The infectious enthusiasm that results from putting practical men in charge of their businesses is as great a reason for hope as anything the city has to show.

The Shanghai No 3 printing and dyeing works is in the midst of the third renovation in the plant's 40-year history. The former owner, Chemical Printers Association of the UK, installed new equipment in the early 1950s. Since 1979, the plant has replaced half its machinery, spending US\$45m to import machines from German manufacturers such as Kuesters and Brueckner.

By the end of the decade the plant will have replaced all its machinery. Jin Renzhong, senior engineer, says his biggest headache is to keep the factory fully operating while installing the machines. But it is a headache he could have only dreamed about a decade ago. The plant will have replaced all its machinery through the National Import and Export Corporation, adding bureaucratic delays that slow the turnaround time on orders to 45 days. Jin wants to trim the bureaucracy and further automate design processes to match Japanese companies, which can meet orders in 30 days although at a higher cost.

The Shanghai Electrical Machinery manufacturing works, by contrast, plays a game that of late looks like free market wheeling and dealing.



The blast furnace commissioned at Baoshan

BAOSHAN IRON AND STEEL COMPANY

White elephant fires up

The factory manufactures everything from trolley bus motors to 300 megawatt generators, with some products under licence from Siemens, BBC and Westinghouse.

The state sets a hard quota for only 20 per cent of the factory's production and guarantees only 20 per cent of its raw materials supplies. Zhou Baisheng, vice-chief engineer of the plant, says the company must obtain up to half its steel through barter arrangements.

Shanghai has begun to make money on its considerable stock of intellectual talent. All the city's universities and research centres have set up consulting technology for a price or a share of future profits.

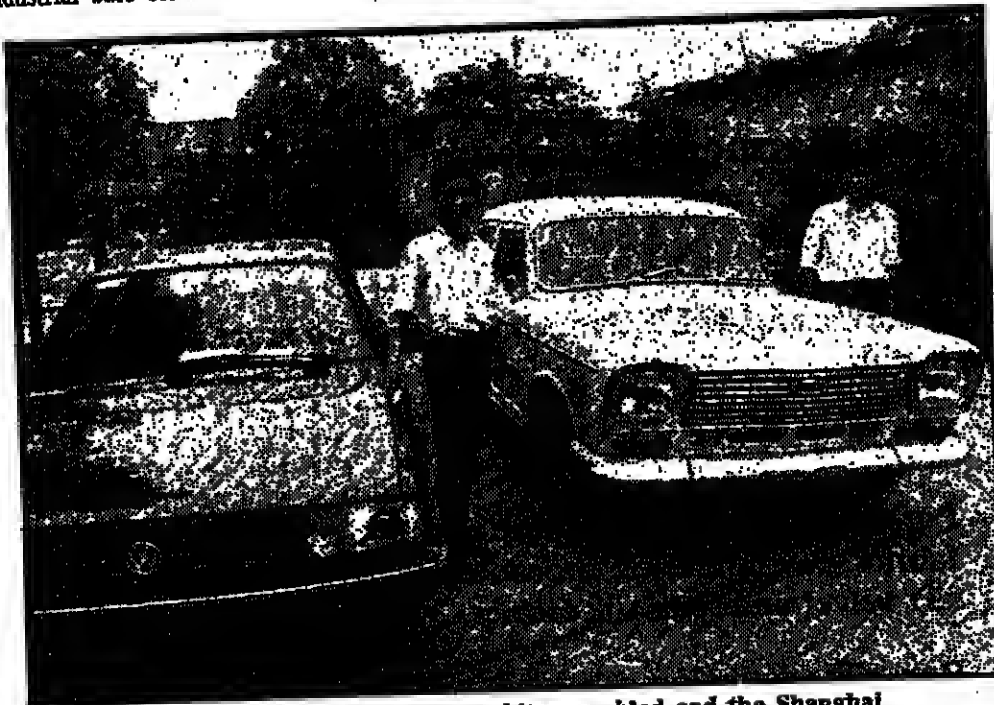
The breaking down of internal trade barriers is turning Shanghai into a regional and national centre for economic growth. Companies throughout China come to Shanghai to set up shops and small factories.

Famous Shanghai companies in turn are setting up joint ventures, and licensing technology and trademarks for everything from bicycles to ping pong balls.

Shanghai has begun to lend money interest-free to raw materials producers. The reward is a guaranteed supply of raw materials at the fixed (cheap) state price.

The city has set up 19 specialised exchanges where buyers and sellers meet and negotiate sales and barter for virtually all kinds of production and consumer goods.

These new commercial channels—a mix of socialist and free-market practices—will take many years to form a clear pattern. But the trend is clear: Shanghai's days of rapid growth in industrial output are over. Its chance to pull the rest of the nation into the modern world, however, may have just begun.



The first Volkswagen Santana kit assembled and the Shanghai model it will replace

VOLKSWAGEN JOINT VENTURE

BY DAVID DODWELL

Buy-back deal clinches project

THE SHANGHAI Tractor and Automotive Corporation talked for five years with eight international car manufacturers before opting for a 25-year joint venture with Volkswagen. The unique ingredient was a commitment to buy back engines, allowing the Chinese venture partner to balance its foreign exchange costs.

"An enterprise that needs to buy components from abroad but cannot earn foreign exchange to pay for them will not last long," says Zhang Bingpei, director of the Shanghai company since 1983.

As China's foreign exchange reserves dwindle at a rate that has alarmed Peking, so Zhang's warning rings even truer than when the joint venture setting up Shanghai-Volkswagen Automotive was signed last October.

Zhang's company has imported just over 400 Santana cars from Volkswagen in kit form since 1983. Under the Yuan

380m joint venture it aims to be turning out 20,000 a year of its own Santanas by the end of 1986, with local content amounting to 83 per cent of the value of each vehicle within seven years.

By 1988 the plant will be making 100,000 Santana engines a year—four-fifths being bought back by Volkswagen for their Audi and VW cars. The foreign exchange is expected to enable the joint venture to balance foreign exchange costs by 1989, Zhang says.

The single production line may seem modest by European standards but to the workers living round the new plant in the rural township of Anting, it is a far cry from the way in which they have made Shanghai cars for 26 years. In all that time they have turned out only 80,000.

From the end of this year, the average worker takes a lifetime to earn Yuan 30,000, it will be some years before the idea of a family car is fulfilled.

stop, to be continued at smaller plants in China.

A big training programme is underway in West Germany. A total of 36 Volkswagen staff is already in Anting, headed by Mr Hans-Joachim Paul, who must feel a little at sea after his last job as division head of Volkswagen's factory in Kassel, where 18,000 transmissions are produced each day.

With a market of more than 1bn people, Volkswagen may be hoping that before the end of the 25-year venture domestic sales will have rallied above current production levels. They would be rash to hope for this in public however.

With a factory-gate price of Yuan 37,000—to be paid in foreign exchange rather than local currency—a Santana would be expensive even in Frankfurt.

In a country where the average worker takes a lifetime to earn Yuan 30,000, it will be some years before the idea of a family car is fulfilled.

THE Baoshan Iron and Steel Company could be the greatest white elephant ever spawned by socialist planners. On September 15 this mammoth complex, sprawling across 11 sq km to the north of Shanghai, fired its furnaces for the first time, opening a new chapter in one of China's longest running and most expensive romances with state-of-the-art technology.

Three years after the project's conception in 1978, Peking began to realize that cost overruns at Baoshan would break the national budget; but by then it was too late to back out. Much of the equipment for the plant had been imported, and cancellation of contracts would have cost millions of dollars in penalty payments.

Instead China sacked the minister in charge of metallurgy and stretched out the construction period.

The Chinese bought most of the installations on a turnkey basis from Japan, relying on Japanese feasibility studies that proved inadequate. The sandy soil on the banks of the Yangtze River would not support the weight of the blast furnace or other heavy installations, forcing them to drive more than Yuan 1bn of imported steel pilings into the ground.

A 1.6 km pier stretches into a dredged section of the Yangtze where heavy ore and coal carriers unload. Even so, a sand bar at the mouth of the river at high tide. One shipping specialist estimated the operation would add US\$6 to \$7 per ton to the cost of Baoshan's raw materials.

Chinese officials are negotiating with the Australian Government for a joint-venture ore mine, the terms of which will include a buy-back arrangement for Baoshan steel.

The first phase of Baoshan, which started in September, cost China 12.8bn yuan, with some 8bn yuan for equipment. From that huge investment China will produce just 3m tons of steel annually.

In a second phase of the project, expected to cost another Yuan 8bn Baoshan will install a second blast furnace, a continuous casting shop, hot and cold strip mills, and another sintering plant, expanding capacity to 6.7m tons annually.

At current exchange rates, when the second phase is finished, the construction cost per ton of annual capacity should be \$1,034. By contrast, the construction cost for South Korea's 8.5m ton facility at Pohang was \$422 per ton.

China badly needs the steel that Baoshan will produce, and Shanghai will consume most of it. But only the peccadillo of socialist planning make the plant viable—the capital costs came out of the national budget. Baoshan has nothing to pay back and nothing to depreciate.

China did learn a few lessons. "When the investment is so large and construction period so long, don't do it all at once," says Mao Shanfa, an official of the plant.

Steven Butler

Muted celebration on Currency open-door policies obstacle to foreign footholds

Trade

DAVID DODWELL

SHANGHAI REMAINS the most important focus for China's trade with the outside world, but its predominance has been eroded.

Most cities in China are celebrating new liberties and accelerated growth that have come as a result of the nation opening up to the outside world. Shanghai's experience since 1979 has not been so clearly a cause for celebration. Exports have stagnated, while imports have soared.

Officials say the figures are no cause for alarm. Exports that in 1979 amounted to US\$3.68bn had slipped to \$3.59bn last year, and are likely to fall further this year. After accounting for more than a quarter of China's exports in 1979 Shanghai now accounts for 14 per cent.

Several factors made this decline inevitable, officials say. Economic liberalisation has given inland cities like Nanjing, Wuhan, Wuhu and Chongqing the power to export directly rather than channel their manufactures through Shanghai.

Rising domestic demand has made it more lucrative for local manufacturers to sell on to the domestic market rather than produce for export.

Slow economic growth among main trading partners, particularly the U.S., has stunted

opportunities for raising exports.

Paradoxically, stagnation in exports has not led to relief in Shanghai's congested Hangpu port. But while export cargoes are now checked through customs in cities up the Yangtze, they are still trans-shipped through Shanghai before being loaded on to vessels headed for Hong Kong, Japan, or further afield.

The port handled 101m tonnes of cargo last year, compared with 84m tonnes in 1979.

The increase in domestic demand, inevitable after decades of self-denial by Chinese consumers, has been felt strongly in Shanghai, a city renowned for the quality of its products. Manufacturers have frequently ignored export opportunities in favour of meeting local demand, not just because they have fewer headaches meeting the strict quality requirements and delivery deadlines normal for exported products, but because domestic prices and profit margins are usually higher.

This would matter little if so many of these manufacturers were not busy spending foreign exchange on overseas equipment to improve the productivity of their plant and raise the quality of products without at the same time earning the foreign exchange needed to fund it. Shanghai's imports have risen from \$203m in 1979 to \$11m last year, and had passed \$1.1bn by the end of August this year.

About a half of imports are still accounted for by steel products, but much of the increase is due to local manufacturers buying equipment from overseas. Almost 400 pieces of equipment were imported last year, at a cost of \$480m.

The short-term answer to this loss of foreign exchange has been to make it much harder for Shanghai companies—and manufacturers throughout China—to win approval to spend foreign currency either to buy equipment or for joint ventures.

The long-term answer is to adjust the centrally-administered price-fixing system for domestic sales which is feather-bedding local manufacturers. This could be done by lowering agreed procurement prices or by devaluing the national currency, which would make export prices more attractive.

to foreign footholds

THE Shanghai Minhang United Development Company, which started to clear 213 hectares of farmland 30 km south-west of Shanghai in 1983, has now completed infrastructure and construction of a 2,000 sq metre model factory and is hoping to sell or rent to a foreign company.

Minhang Industrial Zone was designed to solve a critical problem for foreign companies of finding land and building space with adequate services. Shanghai also boasts a new residential, hotel, and office area for foreigners, the Hongqiao zone, west of the city. Coexisting "Microelectronic" zone, aimed at attracting Shanghai's growing role as China's high-technology leader is on the drawing board.

Shanghai has taken pains to ensure that companies can move into Minhang with a minimum of fuss and has expanded the highway to the city. It is 26 km from the

Development Zones

STEVEN BUTLER

airport, has a feeder rail link into the national systems, and a wharf is under construction near the complex that can accommodate 3,000-ton vessels.

The development company hopes to make a profit on Minhang. It is a joint venture, with 35 per cent of its Yuan 100m equity held by Hong Kong branches of mainland-controlled banks.

It has spent close to Yuan 80m preparing the site, building the model factory, a warehouse, a service centre and an administration building. It expects to spend more than Yuan 200m constructing a hotel, apartments, restaurants, and more warehouses and transport facilities.

The company hopes to earn money providing services to tenants rather than just collecting rents. It will build factories to a customer's specification.

Minhang says it is talking to some 20 companies about moving into the zone, including Xerox, Pepsi-Cola, and Johnson & Johnson. Minhang will not accept heavy industrial projects or operations that cause heavy pollution. It is also interested in high-technology operations.

But so far Minhang has no customers. "We want companies to set up export industries," says an official of Minhang. "But most companies want to sell to the domestic market."

Minhang is stumbling at the obstacle facing all foreign investment projects—how to earn and repatriate profits in foreign currency.

The Hongqiao—new district, about halfway to the airport, may face an easier task of finding foreign investors. It will provide office and residential space for consular services and foreign businesses and earn foreign currency directly.

Hongqiao will provide modern facilities for the foreign community, but some designers are unhappy about moving out of the central city into a sterile foreign ghetto. Consulate would be forced to abandon their beautiful old restored mansions.



In spite of investment, facilities are still inadequate to handle the rising tide of container traffic.

Expansion exposes weak links

Harbour

STEVEN BUTLER

IN MID-OCTOBER 160 ships in Shanghai Harbour queued for a berth to unload. That was an improvement over July and August, when the authorities took emergency action to relieve severe congestion in the port.

Some 500 soldiers were deployed to speed movement of cargo—a step that had little practical effect since a shortage of manpower was never the problem.

More to the point, the Government said it would seize and auction all cargoes not removed from the docks within 30 days. Factories were using the docks for long-term storage. Breaking cargoes as they used their contents. The move prompted a search through the city for temporary warehouse space in school or factory buildings.

"The facilities in Shanghai Harbour were built to handle 70m to 80m tons of cargo each year," says Zhou Guanyue, vice-director of Shanghai's Zhongshan Container Handling Corporation.

Last year Shanghai's volume of cargo surpassed 100m tons for the first time and this year it should reach 115m tons. The increases, a product of China's open-door policy, have exposed not just a weak link, but an

inadequate chain of infrastructure that stretches from the berths and cargo handling to a shortage of trucks, railroads, roads, and warehousing.

The Container Handling Corporation has rapidly improved its ability to take containers off ships and pile them up—the result of Yuan 140m of investment since 1981.

The docks are short of straddle carriers that can move the containers efficiently and handling procedures are unsystematic and primitive. Many cargo recipients lack facilities to handle containers. They come dockside to break and retrieve their cargoes, leaving the empty container behind.

"The port is piled high everywhere with empty containers," says a European businessman who used to ship in steel and machinery. His company stopped using Shanghai because unloading delays of 15 to 60 days raised shipping costs.

Shanghai is China's largest

port, handling 36 per cent of the nation's cargo, making it one of the 10 busiest ports in the world.

The harbour has 96 berths, with 45 that can accept ships up to 10,000 tons. In early October, the largest ship to call at the port, a 32,800-ton ore carrier, slipped across the sand bar at the mouth of the Yangtze River during the harvest moon high tide.

The lack of efficient deep-water facilities is just one long-term constraint on the port's development. The port authorities plan to build 18 more berths over three to five years but for the long term, a plan currently in favour calls for building a new harbour with 100 berths along the Yangtze River west of the Baoshan steel complex.

But building a new harbour would require wharfs 1 km into the water, and continuous dredging.

A dramatic improvement in harbour facilities would be useless without an even more massive improvement of urban infrastructure.

"No matter what we do we cannot solve the problem," says Chen Dianhang of the City Planning Commission.

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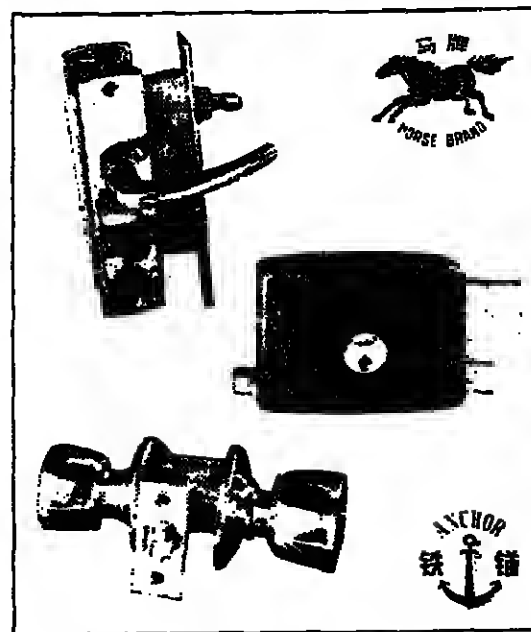
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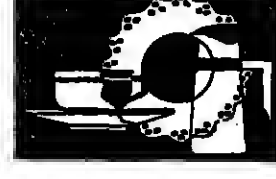
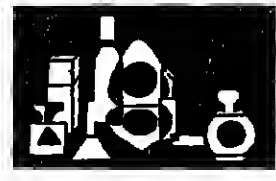
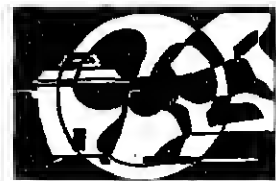
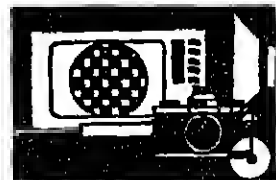


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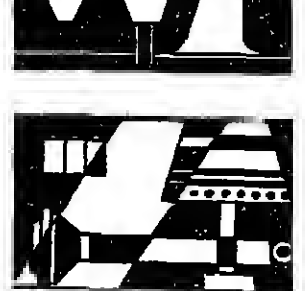
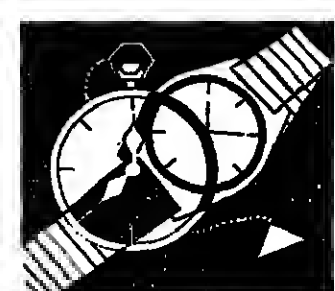
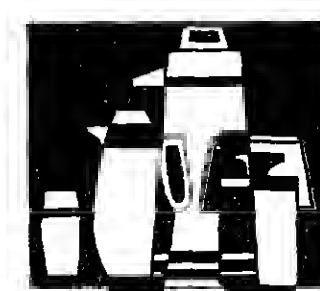


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Shanghai 6

Farmers gain from better outside links

Rural Hinterland

STEVEN BUTLER

ON THE third floor of a workshop in Malu town, 28 kms west of Shanghai, a dozen women sit in front of drill presses and bending machinery, shaping and cutting metal tubes that they pass to an assembly line on a long table. There the tubes are joined, wheels put on, and a febric attached.

The women—officially registered as farmers in China's population books—are assembling baby pushchairs. For many, assembly is complete only after the women stitch on a safety label for the U.S. state of California.

Malu's growing commercial links with the world are a ready benefit being close to Shanghai. The pushchair assembly operation is a joint investment with a city factory, which supplies semi-finished parts and markets the products. Soon a high-speed road will link the town to the city.

The workshop is what Chinese leader Deng Xiaoping had in mind when his reform policies encouraged farming villages to diversify from agriculture and break down administrative barriers to trade. Malu has turned into an industrial town that farms as a sideline.

In 1958 Malu's gross value of production was Yuan 2.48m, less than half a per cent from non-agricultural sources. Last year production reached Yuan 108.41m and a mere 8 per cent came from harvesting. The town exported Yuan 34m-worth of goods, including toys, garments, flavouring extracts, dried mushrooms and garlic.

Closer to the city, towns—the antecedents of Mao's now-defunct rural people's communes—specialise in lucrative commercial vegetable production for Shanghai's 191 state-run and 101 private markets.

At Zhuang Qiao, to the north of the city, each evening farmers wheel in carts piled with green vegetables at the rate of 125 tons per day. The procurement station distributes the produce overnight to up to 60 state-run markets, losing money on each head of cabbage or bundle of spinach.

The purchase station buys vegetables for about 0.15 fen (Yuan 1=100 fen) per kilogram, spends 0.05 fen to distribute it, and sells it to the consumer at 0.13 fen. Citywide, the Shanghai-Vegetable Corporation lost close to Yuan 60m last year in its efforts to keep a steady flow of food into the city while holding prices under control.

The city does make pricing mistakes. Last year the supply of pork petered out because farmers could not make enough profit. The city responded in the spring by lifting the purchase price of pigs and controlling pork prices. Now there is a severe shortage of pigs, and the market price of pork has jumped by about 60 per cent.

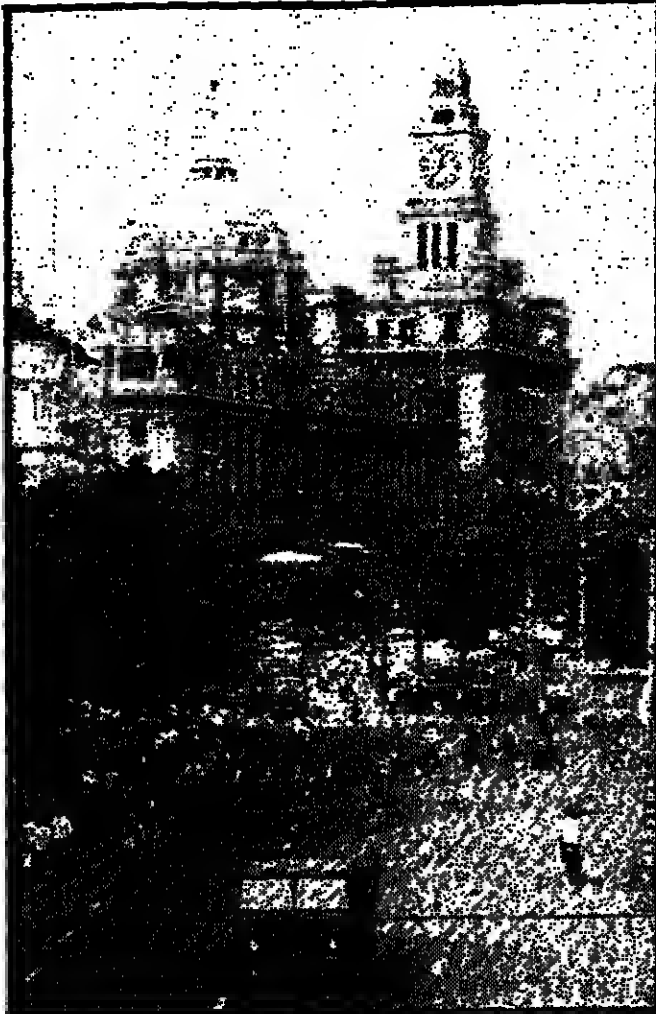
That price rise has helped lift turnover totals in the free markets to a point that they often rival neighbouring state-run markets, where produce is plentiful and cheap but often much lower quality.

The state still controls about 80 per cent of fresh produce sales, according to the Shanghai Vegetable Company, giving it a commanding control over prices and protecting consumers from the sometimes rapid swings of price on the much thinner free market. Nonetheless, many city residents—especially those on fixed income—complain that they have not been able to keep up with prices.

Farmers have benefited in recent years. A fresh crop of two-storey houses dot the countryside outside of Shanghai, and 25 sq metres of housing per capita in Malu is roughly five times the average for Shanghai city.



Chickens on sale at a street market



Some of the world's richest collection of early 20th century architecture

Propaganda still retards quality

Film Industry

ROBERT THOMSON

IN THE studios of the Shanghai Film Corporation the tragic irony of the Cultural Revolution still furrows brows. Two decades ago, the corporation made its first feature film in 1913. Now Chen wants to improve technology and enterprise by attracting foreign studios in joint ventures. The studios make about 20 features annually as well as TV dramas and animated films. Chen considers a joint film venture could make a commercially viable product without making a "commercial" film. "We have the topics here. We could make a film that uses

the mystery of Tibet as a background. It could make money and entertain as well as have social benefits," he says. The quality of the Chinese film industry is still retarded by the apparent need to score propaganda points. Chen says propaganda value is not considered in the making of a film, but the films show a different conclusion. College Girls' Dormitory, which won second prize in the Ministry for Culture's 1983 award for outstanding films, tells the soap opera story of Kuang, an impoverished young girl trying to pay her way through university in working as a brick labourer. Other recent films include Girls Marry When They Are Old Enough, The Happy Bachelors, This Isn't a Misunderstanding, and Dong Biwu—a Veteran Revolutionary. In spite

Pressure rises on unique building legacy

Heritage Protection

STEVEN BUTLER

A WALK along the Shanghai Bund easily inspires nostalgia for an era that is long gone. Great towers of carved granite stand watch over the Huangpu River, harking back to the 1920s and 1930s, when each builder, flush with cash from Shanghai's booming economy, tried to construct the tallest and most lavish structure in Asia.

Across the old Avenue Edward, now Yenan Road, the architecture immediately acquires a French accent in the former French concession. Sprawling stucco mansions with rich hardwood interior panels stretch for miles west of the river, giving further evidence of Shanghai's earlier incarnation as one of the world's great cosmopolitan cities.

South of the foreign concessions, the old 16th century Chinese city remains, complete with scholars' garden and tea house. The decrepit state of most buildings deepens the sense of nostalgia. Thick layers of grime blacken the stone. Crude iron grates and guard boxes roughly intrude on what once were stately marble vestibules. Canvas window awnings are thick with dirt, and sometimes a bare metal frame is all that remains.

The bar in the old Shanghai Club, once said to be the longest in the world, has been chopped off.

Not all has fallen into disrepair. The drab exterior of the city hall, once headquarters of the Municipal Government and Shanghai Banking Corporation, hides an interior in pristine condition, with polished marble floors, tile inlays, and delicately painted vaulted ceilings.

The Bank of China recently spent Yuan 1m to restore the interior of its Shanghai headquarters.

Shanghai's legacy of granite, marble, and brass is often more notable for opulence than fine taste, yet it is an architecture that hundreds of cities in the

West have tried and often failed to save. In Shanghai, the neglect of the city has ironically preserved what is probably the richest, most diverse collection of early 20th century architecture found anywhere.

Now that the city is due for redevelopment, it is awakening perhaps too slowly to the fact that it has a unique physical legacy to preserve. The coming years will set a crucial precedent as pressure grows more intense to make the most economic use of limited land resources.

"Shanghai is an international architectural museum," says Chai Xiaolan, of the city planning and building administration. "No other city in the world has this, and we want to preserve it."

Plans call for protection and restoration of all the buildings along the waterfront down to the new passenger terminal. Behind the Bund and to the south, buildings may be selectively cleared to make way for new office towers.

The old Chinese city will be preserved for 300 metres around the 16th century Yu Gardens with regulations that limit structures to three stories and set style specifications. The city plans to rebuild Nanjing Road—China's most famous shopping avenue—preserving unusual buildings such as Duo Yun Xuan, the city's most famous painting store, built in 1900. In recent years hundreds of shops have rebuilt their interiors and installed aluminium and glass frontings.

Soundings coming out of city hall are heartening, but no one knows whether architectural codes in the drafting stage will have teeth. The back of the luxurious Jinjiang Club, formerly the Cercle Sportif Francaise, has been ripped apart and will be joined to a new hotel tower.

A Western resident of the city says that while everyone agrees on the principle of preserving the city's heritage, "There is a willingness to make exceptions that can diffuse the whole programme."

If the city fails to act, he warns: "Future generations of Shanghai will curse the Government for failing to preserve a city uniquely representative of the early 20th century."



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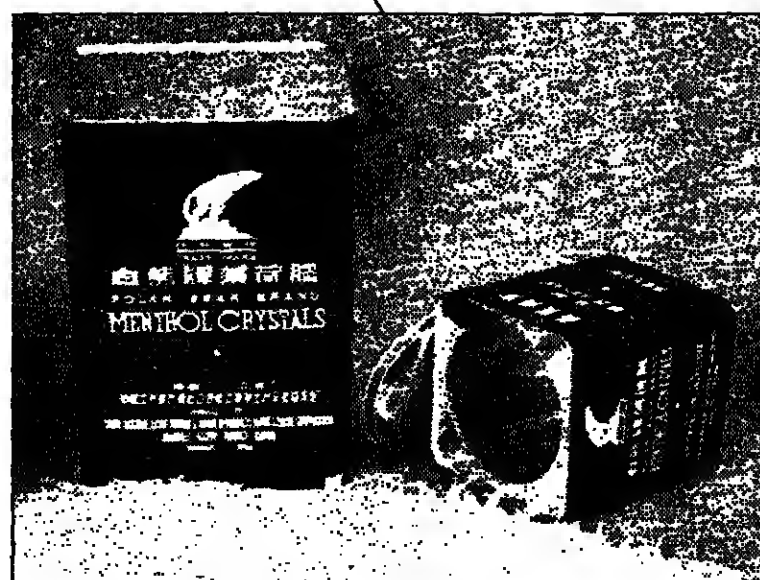
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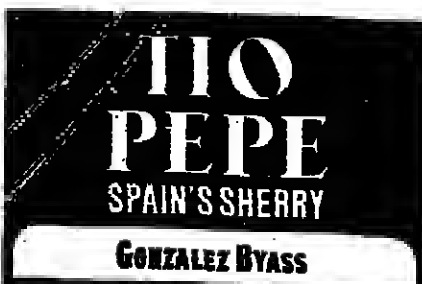
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SECTION II - COMPANIES AND MARKETS

FINANCIAL TIMES

Tuesday October 29 1985

IVECO
International
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GM pulls out of Enasa bid talks

By David White in Madrid

GENERAL MOTORS OF THE U.S. has postponed indefinitely its plans to take a controlling stake in Enasa, the Spanish group which manufactures Pegaso lorries.

A meeting between representatives of the two companies last week ended inconclusively. The Spanish group said they were not ready to start a second phase of negotiations.

The U.S. group had decided to withdraw from takeover talks until it had worked out its overall European plans in the sector and looked into the alternatives, it said.

However, GM and Enasa have drawn up the main lines of an industrial plan for the loss-making Spanish group, which they have been working on jointly since they agreed at the beginning of this year to study the possible benefits of a link-up.

Enasa, from which International Harvester of the U.S. pulled out in 1982, said it would meanwhile continue studies on its own. No further meeting with General Motors has been fixed.

The plan drawn up by the two companies under their "memorandum of understanding" in January would involve the loss of 1,800 jobs - almost a fifth of the workforce - and the negotiation of aid from the Spanish Government.

Unions at Enasa say they will oppose any cuts and demand a say in the takeover negotiations. If the GM takeover falls through, Enasa is expected to seek an alternative deal with Toyota of Japan, which has proposed a looser kind of association.

Norcem looks for Nkr 275m in full year

By Fay Gjester in Oslo

NORCEM, the Norwegian cement and building materials producer, which is also involved in a number of offshore drilling-related activities, reports a strong increase in sales and profits during the opening eight months of 1985.

The improvement, affecting all the group's divisions, is expected to continue and to lift pre-tax profits for 1985 to Nkr 275m (\$34.6m) from Nkr 199m last year. Eight-month profits rose to Nkr 142m, from Nkr 121m a year earlier, on turnover of Nkr 2,580m (Nkr 2,180m).

Particularly good results were achieved by the cement division, which increased deliveries to the domestic market by 14,000 tonnes to 987,000 tonnes in the eight months.

Deliveries of cement and clinker to markets in New York and West Africa were also up - by 77,000 tonnes to 772,000 tonnes. But in Nigeria, import restrictions depressed sales volumes of Eastern Bulk Cement Company, in which Norcem is a minority shareholder.

Sales of oil-well cement increased, both to the North Sea and in the United Arab Emirates.

In the offshore division, improved results were reported by service companies Morco (well drilling and maintenance), Anchor Drilling Fluids, Norssea Base and Norssea Industries.

Chrysler earnings soar above Ford's in third quarter

BY TERRY DODSWORTH IN NEW YORK

CHRYSLER, the U.S. car company that was virtually written off six years ago, outperformed General Motors and Ford in the third quarter, increasing both its operating and net profits while its competitors' results were undercut by aggressive sales campaigns.

The strength of Chrysler's activity in the quarter was highlighted by the fact that its net profit of \$318.2m amounted to \$3m more than the earnings reported by Ford last week. Over the first nine months of the year, Chrysler's net income of \$1.42bn was not far behind Ford's \$1.56bn, although its sales of \$15.87bn were less than half of Ford's \$38.7bn.

Analysts attributed Chrysler's buoyant performance largely to its lower costs. Like the two larger U.S. motor groups, the company launched a low-interest promotional scheme in the quarter, offering rates as low as 7.5 per cent at one point. But while that tactic undermined the profitability of both General Motors and Ford, the extra volume generated by Chrysler showed through in earnings.

Some of the advantage may be lost to the company through its new labour contract, which was accepted by the workforce at the week-

end. The deal is expected to cost Chrysler around \$1bn a year, but Mr Lee Iacocca, chairman, said yesterday that the company could "handle" the settlement if it was able to negotiate appropriate changes in work rules. Talks on such alterations are proceeding after the workforce returned from a one-week strike yesterday.

Chrysler has also managed to reduce its costs compared to its competitors by increasing the amount of components it buys in from outside the company.

This year's net earnings for the quarter, the equivalent of \$2.75 a share, compared with \$2.61, or \$1.88 a share in 1984, and were achieved after a tax charge of \$135.6m against a tax credit last year of \$113.4m. Operating earnings amounted to \$451.8m compared with \$261.9m, while sales came to \$14.1m against \$4.1m.

In the first nine months, earnings of \$1.42bn, or \$12 a share, were down from \$1.77bn, or \$13.7 a share in the same period of 1984, while this year's sales compared to \$14.2bn last year.

Chrysler's figures brought total earnings for U.S. motor manufacturers in the third quarter up to \$1.44bn from \$1.06bn in 1984.

Bayer expects best year since the war

BY JOHN DAVIES IN FRANKFURT

BAYER, the West German chemical and pharmaceutical group, is benefiting from a further strong surge in sales this year.

Herr Hermann Josef Strenger, the chief executive, said Bayer was heading for its best year since the second world war. He did not give details on likely earnings.

Herr Strenger said Bayer's world sales revenue reached DM 35.5bn (\$13.5bn) in the first nine months of this year, up 8.6 per cent on the same period last year. Sales revenue for the whole year is expected to rise 8 per cent to about DM 40.5bn.

He said Bayer had expected a year of stability at a high level, but in fact business had exceeded those expectations. Sales abroad from exports and foreign production had been particularly strong, making up

to 80 per cent of Bayer's sales revenue.

Last year the group boosted world sales by 15.3 per cent to DM 43bn, with net profits after tax increasing 55.7 per cent to DM 1.17bn. Along with BASF and Hoechst, the other two big West German chemical companies, Bayer paid dividend of DM 9 a share on last year's earnings. With all three chemical concerns performing strongly this year, there has long been speculation about a further dividend increase.

In the first half of this year, BASF lifted sales 11.9 per cent to DM 24bn, with its group pre-tax profits up 37.3 per cent to DM 1.7bn. Hoechst's world sales rose 7.3 per cent to DM 22.2bn in the first half, with pre-tax profits up 11.5 per cent to DM 1.65bn.

Deteriorating markets hit Elkem earnings

By Our Oslo Correspondent

ELKEM, the Norwegian metals, mining and manufacturing group, blamed deteriorating world markets for aluminium, silicon and ferro-alloys, for a sharp fall in nine-month profits from Nkr 372m to Nkr 274m (\$34m), despite a Nkr 993m increase in sales to Nkr 8.49bn. Third-quarter profits were Nkr 18m, the lowest quarterly return since 1982.

In North America, where Elkem owns and operates a number of ferro-alloy plants, the market was "particularly weak," and the group's activities operated at a loss in the third quarter. Further rationalisation measures are being implemented to improve results. The

group's problems in the U.S. have been aggravated by the high value of the dollar, which has encouraged imports and it says that in the long term a continued decline in the dollar's value will strengthen the competitiveness of its U.S. and Canadian metals companies, which are the largest ferro-alloy producers in North America.

Profitability of the finished products and minerals divisions during the period was described as encouraging.

Elkem shares were quoted on the Frankfurt Stock Exchange for the first time on September 30. The company has been listed in London since the end of May.

No change at top of AMC

By David Marsh in Paris

THE senior management at American Motors Corporation, the U.S. car maker owned 46 per cent by Renault of France, has remained in place for the time being after a board meeting of AMC in Paris on Friday.

M Jose Dedeurwaerd, the present AMC chief executive, who has been tipped to take over as chairman and also as Renault's Paris-based sales and marketing director, will thus stay in his present job for the moment.

Strong gains for Erbamont

By Alan Friedman in Milan

ERBAMONT, the Netherlands Antilles-registered pharmaceuticals subsidiary of Italy's Montedison group, yesterday announced a 90 per cent rise in net profits for the first nine months of this year to 1.63.5m (\$35.8m).

The rise was recorded on consolidated sales up 18 per cent at 1.947.9bn.

Flood of floaters launched

BY PETER MONTAGNON, EUROMARKETS CORRESPONDENT, IN LONDON

A RUSH of new floating-rate note issues totalling \$350m reached the Eurobond market yesterday as fixed-rate bonds slipped in the wake of a weaker trend on Wall Street.

Dealers said issuers were seeking to benefit from the window created by recently announced decisions by several borrowers to call higher-yielding older issues. But, added to the spate of floating-rate notes left over from last week, yesterday's offering left the market feeling saturated and some of the paper encountered resistance.

Among the deals were two for U.S. savings and loan institutions, both collateralised by holdings of government mortgage securities and both incorporating the maximum coupon feature, which allows a higher current yield than normal.

Homestead Savings and Loan of California is raising \$150m through a 10-year issue led by Credit Suisse First Boston and bearing interest at

a margin of ¾ per cent over three-month London interbank offered rates (Libor). There is a maximum coupon of 13 per cent and a minimum of 8 per cent.

Crossland Savings and Loan of New York launched a \$100m, 12-year issue through Salomon Brothers. It bears the same margin as the Homestead deal, but there is a maximum coupon of 13¼ per cent which comes into effect after three years.

The other floating issues were both for regional U.S. banks. First Bank System launched a \$200m, 25-year issue bearing interest at ¼ per cent over three-month Libor through Morgan Guaranty and CSFB, while Morgan Stanley brought Riggs National Bank to the market for \$100m over 11 years with a margin of ½ per cent over three-month Libor. Co-leads are Banque Paribas and Chemical International.

The fixed-rate dollar market saw price falls of around ¾ points on average amid continuing concern over developments in the Japanese bond market and news of impending U.S. Treasury financing needs. A lone issue was a \$100m, seven-year bond for Kansai Electric Power, which ironically is aimed at Japanese investors and bears a 10½ per cent coupon and an issue price of 101¼. Nomura is leading the bond, but it was not clear how it was being received last night.

In demand, however, was a two-part convertible issue for BTR, the British industrial conglomerate, which is led by Swiss Bank Corporation International and traded over its par issue price yesterday afternoon. One tranche is for \$150m with an indicated coupon of 5 per cent and the other for £100m with an indicated coupon of 4½ per cent.

The conversion premium will be 4 to 5 per cent, but an unusual feature is that investors will have the option to redeem their bonds for a dollar yield of 9¼ to 9½ per cent after

five years. A similar option with a yield of 8½ per cent exists for the Ecu tranche.

Continental markets also weakened, especially those for Ecu bonds and D-Mark issues, which shed about ½ points on worries about an oversupply of paper. One bright spot was the fledgling Euro-lira sector, where a £50bn, five-year issue for United Technologies was well received. It bears interest at 13½ per cent and an issue price of par and is led by Banca Commerciale Italiana alongside Mmrgan Guaranty.

Euroyen issues were marked down by more than 1 point yesterday morning, following the trend in Tokyo, but recovered most of those losses in the afternoon. Terms on the new ¥10bn private placement in the domestic market for Pemex of Mexico have been set with a 7.5 per cent coupon over seven years and an issue price of par.

International bond service, Page 20

Japanese government bonds fall further

BY CARLA RAPOPORT IN TOKYO

PRICES of Japanese government bonds continued to fall yesterday in this trading as financial markets remained nervous about the future trends of Japanese interest rates and the value of the yen.

Spots and futures prices of government bonds were depressed. On the spot market, the 8½% long-term government bond, a market indica-

tor of large-lot transactions, was about ¥2 weaker at ¥100.86. Its yield jumped to 8.83 per cent from 8.3 per cent at the close of trading on Saturday.

On the recently opened futures market, where the daily price limit has been raised to ¥3, the December contract, which is the most heavily traded, fell from ¥99.83 on

Saturday to ¥98.63. Futures volume totalled ¥51bn, leaving ¥855bn worth of selling orders unfilled.

Short-term interest rates continued to firm, with the two-month discount rate up to 7.8 per cent compared with 7.5 per cent last week. Interbank call and bill discount rates climbed to 7.75 per cent, irrespective of maturity.

Despite the bearish note in the bond and money markets, the Tokyo Stock Exchange yesterday raced ahead, with the Nikkei market average gaining ¥104.41 to close at ¥12,557. Traders said that a big blue chip rally led the way.

Page 42

Venezuelan group to sign \$80m rescheduling

BY RICHARD JOHNS IN CARACAS

PLASTILARGO, a Venezuelan petrochemical concern, and a consortium of banks headed by Chase Manhattan, are due to sign an \$80m refinancing agreement in Paris on November 5.

The deal will be only the second rescheduling arranged by the Venezuelan private sector since the start of the country's debt crisis early in 1983.

Plastilargo, a manufacturer of high-density polyethylene, is classed as a private-sector company although the state-owned Petquiven, an affiliate of Petroleos de Venezuela, has a 49 per cent stake in it. CDF Chimie de France owns 25 per cent and Mitsui of Japan another 5 per cent, with the balance of shares held by Venezuelan private investors.

Repayments are to be concentrated between March 1986 and March 1991. The company will have access to the preferential rate of 4.3 bolivars to the dollar for the principal and 7.5 for the interest, according to Dr Rafael Macia, president of Plastilargo. The company, which came on stream at the beginning of last year and is exporting a quarter of its output, did not take up the full

\$100m available under the original facility, made up partly of export credits in the form of Belgian francs.

Recently C.A. Venezolana de Cementos became the first of the country's private companies to reschedule when it signed a \$72m package with 12 international banks.

Independent analysts estimate that Skopbank's bid is unlikely to attract more than 10 per cent of the shares. BoH has 38,000 shareholders, with the second biggest, Konstsamfundet Fund, controlling 9.2 per cent. The third biggest is the insurance company Sampo with 15.1 per cent. The three largest shareholders have already started negotiations.

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Swire Pacific Limited Interim Dividends for 1985

Election for cash dividends was received by the closing date for the lodgment of election forms in Hong Kong and in London for the holders of 168,609,601 'A' shares and 247,535,528 'B' shares. Accordingly, the following new shares have been allotted to shareholders accepting scrip dividends.

	Number of new shares issued	Proportion of existing shares in issue
'A' shares	1,618,180	0.6178%
'B' shares	12,264,185	1.5327%

Certificates for the new 'A' and 'B' shares, together with dividend warrants for the minimum cash dividends of 1.0¢ per 'A' share and 0.2¢ per 'B' share and for the other cash dividends for which elections were received, will be despatched to shareholders on 1st November, 1985. The Hong Kong Stock Exchange has granted permission for the shares to be quoted and dealt in from that date.

By order of the Board
JOHN SWIRE & SONS (H.K.) LIMITED
Secretaries

Hong Kong

Swire Pacific Limited
The Swire Group
Swire House, Hong Kong

[illegible]

October 1985

E. F. Hutton LBO Inc.

is the principal investor with management in

H.D. Holding Company Inc.

which has acquired in a leveraged buyout

Duckwall-ALCO Stores, Inc.

The undersigned initiated this transaction, arranged for the placement of debt and equity and acted as financial advisor to H.D. Holding Company Inc.

E. F. Hutton & Company Inc.

October 1985

E. F. Hutton Credit Corporation

a wholly-owned subsidiary of

The E. F. Hutton Group Inc.

has been acquired by

Chrysler Financial Corporation

a wholly-owned subsidiary of

Chrysler Corporation

The undersigned initiated this transaction and acted as financial advisor to The E. F. Hutton Group Inc.

E. F. Hutton & Company Inc.

October 1985

Ferro Manufacturing Corporation

has been acquired by

Johnson Controls, Inc.

The undersigned acted as financial advisor to certain shareholders of Ferro Manufacturing Corporation in this transaction.

E. F. Hutton & Company Inc.

October 1985

Emhart Corporation

has acquired

MITE Corporation

The undersigned acted as financial advisor to Emhart Corporation in this transaction and served as Dealer Manager in the tender offer.

E. F. Hutton & Company Inc.

October 1985

Levitz Furniture Corporation

has been acquired in a leveraged buyout by

LFC Holding Corporation

The undersigned acted as financial advisor to the Ad Hoc Committee of the Board of Directors of Levitz Furniture Corporation in this transaction.

E. F. Hutton & Company Inc.

October 1985

ICN Pharmaceuticals, Inc.

has acquired

Micromedic Systems, Inc.

a wholly-owned subsidiary of

Rohm and Haas Company

The undersigned acted as financial advisor to ICN Pharmaceuticals, Inc. in this transaction.

E. F. Hutton & Company Inc.

EFHutton

Mergers & Acquisitions
Leveraged Buyouts

Partners in
Corporate Growth



EUROPEAN INVESTMENT BANK

(the "EIB")
NOTICE

to the holders of the outstanding YEN 15,000,000,000
EUROPEAN INVESTMENT BANK JAPANESE YEN 15,000,000,000
8 1/4 PER CENT BONDS DUE 15TH DECEMBER, 1990 (the "Bonds")

EARLY REDEMPTION ON 15TH DECEMBER, 1985
of all the Bonds by the EIB

NOTICE IS HEREBY GIVEN to the holders of the Bonds (the "Bondholders") that, in accordance with terms and conditions endorsed on the Bonds (the "Conditions"), the EIB will on 15th December, 1985, (the "redemption date") redeem all of the Bonds then outstanding at 101 per cent of their principal amount together with interest accrued on such date (being an aggregate of Yen 548,750 for each Bond of Yen 500,000). Payments of principal, premium and accrued interest will be made on and after the redemption date in the manner provided in the Conditions against surrender of Bonds and Coupons No. 5 due on 15th December, 1985 and all subsequent Coupons pertaining thereto at the specified office of any of the Paying Agents listed below. Failure to surrender any such subsequent Coupon(s) will result in the amount of such Coupon(s) being deducted from the sum due for payment on the redemption date. The attention of the Bondholders is drawn to the Conditions and in particular to condition 5 which contains further details regarding redemption.

FISCAL AGENT AND PRINCIPAL PAYING AGENT

The Industrial Bank of Japan, Limited,
3-3, Maruyoshi 1-chome,
Chiyoda-ku,
Tokyo.

ADDITIONAL PAYING AGENTS

The Industrial Bank of Japan (Luxembourg) S.A.,
25B, Boulevard Royal,
Luxembourg.

Kreditbank S.A. Luxembourgprote,
43, Boulevard Royal,
Luxembourg.

The Bank of Tokyo, Ltd.,
Paris Office,
4-8, rue Sainte-Anne,
75001 - Paris.

The Bank of Tokyo, Ltd.,
6-3, Nishinaka,
Hongokuchō 1-chome,
Chuo-ku, Tokyo.

Caisse d'Epargne de l'Etat du Grand-Duché de Luxembourg,
1, Place de Metz,
Luxembourg.

European Investment Bank

Dated 29th October, 1985.

July 1985

This announcement appears as a matter of record only

99,000 shares AACHENER UND MÜNCHENER BETEILIGUNGS A.G.

The above securities have been placed
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INTERNATIONAL COMPANIES and FINANCE

Mixed results for NEC and Fujitsu

BY YOKO SHIBATA IN TOKYO

NEC AND FUJITSU, two leading Japanese electronics groups, showed divergent fortunes in the half-year to September, with the former far less troubled by the prolonged semiconductor recession.

Fujitsu suffered severely as its sales have a higher proportion of memory chips, demand for which has been particularly affected. This was compounded by the adverse effect of the yen's steep appreciation against the dollar.

Although no substantial recovery in the semiconductor market is expected in the current half-year, the directors of both companies yesterday indicated a feeling that the recession is bottoming out.

NEC's pre-tax profits for the six months were in line with its initial projection at ¥60.06bn (¥279.7m), some 13.3 per cent ahead. Net profits rose 39.3 per

cent to ¥32.08bn, on turnover of ¥940.04bn, up 7.3 per cent. On a per share basis, net earnings were ¥23.27 compared with ¥13.46.

During the half-year, NEC's sales of communication equipment rose 13.7 per cent to contribute 36.7 per cent of the total. Reflecting buoyant sales of office computers, up by a half, NEC's sales in the computers and electronic equipment sector advanced by 19 per cent to account for 35 per cent of total turnover. However, electronic devices sagged by 20.5 per cent in sales to account for 21 per cent of the total.

Amid the recession in the U.S. personal computer market, NEC's exports of electronic devices to the U.S. slowed by 15 per cent. As a result, exports overall rose by only 0.8 per cent to account for 33.7 per cent of all sales.

As a result of volume production of communication equipment and computers, as well as cost-cutting efforts, the company's cost-to-sales ratio improved by 0.7 points to 66.4 per cent.

NEC has trimmed its capital investment allocation for semiconductors by ¥20bn to ¥120bn for the current full year.

Pre-tax profits for the year to March are projected at ¥133bn, up 6 per cent, revised downwards from the initial target of ¥150bn. Net profits are projected at ¥68bn, up 22 per cent, on sales of ¥2,050bn, ahead by 9 per cent.

Fujitsu, Japan's largest maker of computers, saw its half-year pre-tax profits fall ¥5bn short of the initial projection to reach ¥34.49bn, down by 36.3 per cent from the previous year. Net profits were 17.5 per cent lower at ¥22.48bn on turnover of

¥688.66bn, a rise of 18.7 per cent.

The company attributed the earnings decline—to ¥15.56 a share against ¥21.09—partly to lower margins on semiconductor sales. Turnover in its electronic devices division fell 20.4 per cent to ¥814.3bn, accounting for about 13.3 per cent of all business.

For its information processing equipment, which represents as much as 70.7 per cent of total turnover, sales rose 24.6 per cent to ¥498.90bn. In communications equipment, turnover jumped 48.5 per cent to ¥110.53bn, where it accounted for 16 per cent of Fujitsu's total business.

It said the full-year outlook indicated a fall in pre-tax profits to ¥72bn, compared with ¥117.59bn, and net earnings of ¥46.8bn against ¥63.30bn. Sales are forecast to advance from ¥1,292bn to ¥1,500bn.

State aid for Korean leasing industry

By Steven Butler in Seoul

THE SOUTH KOREAN Ministry of Finance has allocated 100bn won (\$112.2m) in concessional loans for the country's rapidly expanding leasing industry. The measure is part of a series of government moves in recent months to spur investment in industry, which has been lagging due to sluggishness in the economy.

The money will be drawn from the National Investment Fund, with interest rates at 11.5 per cent, and from funds raised by the issue of certificates of deposit, carrying rates of 12.75 per cent annually.

Total outstanding leasing contracts at the end of September amounted to 803,420 won, an increase of 53 per cent from a year ago. The industry has leased ahead since 1983, when leasing contracts reached 163,600 won, and the total this year is expected to exceed 1,000bn won. It covers a wide range of plant and machinery.

Citibank, Manufacturers Hanover, and the Tokai Bank of Japan each holds major interests in domestic leasing concerns.

Loans extended by the Bank of Korea, Korea's central bank, to banking institutions have shot up dramatically this year. At the end of September, outstanding loans amounted to 10,741,400 won, an increase of 40.9 per cent since the end of 1984.

Mr Park Cheul, chief of the Bank's monetary policy department, said the unusual increase resulted in part from the Bank trying to accommodate a more expansionary monetary policy at a time when government spending and the current account deficit had a contracting effect on the money supply. In September, M2, the broad measure of money supply, jumped up by 15.7 per cent compared with the previous year. The government has loosened control over the money supply in hopes of prodding the economy out of recession.

A Bank of Korea programme to boost commercial bank profits with concessional loans, however, has become bogged down. The programme, announced in June, was designed to bolster bank profits, which have suffered because commercial banks have had to extend billions of dollars in bail-out loans to insolvent shipping and construction companies.

Atlas Industries in receivership

BY DAVID DODWELL IN HONG KONG

ATLAS INDUSTRIES, the financially troubled Hong Kong electronics group, has been placed in receivership by the Hongkong and Shanghai Banking Corporation, one of the company's leading creditors.

Mr Peter Wrangham, Hong Kong Bank's general manager, said the decision to call in the receiver came after discussions with Mr Alan Miller, chairman of Atlas Peak Marwick Mitchell, the accounting firm, has been appointed receiver.

Trading in Atlas shares was suspended last Thursday as news of its deepening financial

problems circulated in the territory's stock markets. The shares had fallen from a peak HK\$80 a share to a suspension price of just 25 cents.

Atlas has been seriously hurt by declining international demand for a range of electronics products. In particular, the cancellation of a US\$180m contract to supply IBM with disk drives has caused serious cash-flow problems. Atlas had invested heavily in new plant in Malaysia to meet the IBM order, incurring heavy debts in the process.

It was unclear yesterday what

action was planned by Atlas' other creditors. These include Bank of America and Barclays Bank International. It was reported at the weekend that 13 claims had been filed against Atlas in Hong Kong, amounting to around HK\$2.7m (US\$346m).

Neither Mr Miller nor any other Atlas executive was available for comment yesterday. Hongkong Bank would not comment on the size of the company's debts, nor on the size of its own loan-outstanding. It is as yet unclear whether the whole company or parts of it can be rescued by the receivers.

Claremont in Triton Energy bid

BY MICHAEL THOMPSON-NOEL IN SYDNEY

AUSTRALIA'S Claremont Petroleum has established a 5.5 per cent stake in Triton Energy Corporation of Dallas, Texas. It is also to file notification that it may buy additional Triton shares and seek to acquire control of Triton through a tender offer.

Claremont claims that the directors of Triton have breached their duties in issuing a controlling block of Triton shares to Crusader Oil, Triton's Australian subsidiary.

In the year to May 31, Triton reported revenue of U.S.\$51m,

and net earnings of U.S.\$9.8m. It participated in 175 oil and gas wells in North America, France, the North Sea, and Australia. Its proved reserves are about 35m net equivalent barrels of oil.

Claremont made net profit of A\$10.2m in the year to June 30, on revenues of A\$26m. The bulk of its revenue was derived from the sale of 643,138 barrels of oil from southern Queensland, plus revenues from the Jackson-Moonie pipeline.

It says that in total oil exploration acreage, it ranks third among Australian listed

companies. Claremont says that Triton's underlying assets are significantly undervalued in terms of its market capitalisation of U.S.\$228m. The Australian company says Triton's 59.5 per cent interest in Invent Energy, a UK-based petroleum company, is worth approximately \$23m and that its 47 per cent interest in Crusader Oil is currently worth about U.S.\$70m.

"These two assets alone are currently therefore worth some U.S.\$93m as against Triton's own market capitalisation of U.S.\$228m," said Claremont.

NBH chairman cautious on near-term outlook

BY KENNETH MARSTON, MINING EDITOR

MR LEITH JARMAN, chairman of North Broken Hill Holdings, the Australian mining and investment house which acquired EZ Industries last year, remains cautious about the near-term outlook. NBH's profit performance in the year to next June "is unlikely to improve greatly from 1984-85," he said at the company's annual meeting in Melbourne. Net profits fell to A\$25.33m (£12.4m or \$17.8m) in 1984-85 from A\$31.41m.

Although the NBH mining operations were not competitive, Mr Jarmann said that high priority was being given to rectifying problems. Capital investment has been increased to an annual rate of A\$100m and the group structure has been modified.

He noted that for each U.S.\$100 rise in zinc prices—currently around U.S.\$945 per tonne for Prime Western zinc—NBH pre-tax earnings would increase by A\$26m.

Carrian Investments

A HONG KONG court has dropped a charge of conspiracy to defraud against Mr Mark Saunders-Davies, formerly of Wardley, the merchant bank. He had been charged in connection with the collapse of Carrian Investments in 1983. The date for trial of the remaining defendants was set at January 15.

This announcement appears as a matter of record only. July 1985



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U.S. \$250,000,000

10 1/2 per cent. Guaranteed Deposit Notes due 1990
(the "Notes")

Guaranteed on an unsubordinated basis by
BARCLAYS BANK PLC

In accordance with the Trust Deed dated 22nd August, 1985 ("the Trust Deed") made between Barclays Bank Finance Company (Jersey) Limited (the "Company"), Barclays Bank PLC and Alliance Assurance Company Limited, constituting the Notes, the Company hereby gives notice that 13th January, 1986 has been determined as the Exchange Date as defined in Clause 4(B) of the Trust Deed. Persons entitled to delivery of any of the Notes are accordingly advised to obtain from the specified office of any of the Paying Agents, the office of CEDEL S.A. in Luxembourg or the office of Morgan Guaranty Trust Company of New York as operator of the Euro-clear System ("Euro-clear") in Brussels, the form of the certificate to be completed, stating that such Notes are beneficially owned by persons who are not (i) U.S. persons (as defined in the Trust Deed) or (ii) persons who have purchased them for reoffer or resale to any U.S. person. Completed certificates should be delivered to the office of CEDEL S.A. in Luxembourg or to the office of Euro-clear in Brussels prior to, on or after the Exchange Date. Definitive Notes with Coupons will be available on or after the Exchange Date in exchange for relevant certificates.

BARCLAYS BANK FINANCE COMPANY (JERSEY) LIMITED

29th October, 1985

U.S. \$30,000,000



GRUPO INDUSTRIAL SALTILLO S.A.

Floating Rate Notes due 1988

In accordance with the provisions of the Notes notice is hereby given that for the six months interest period from 29th October 1985 to 29th April 1986 the Notes will carry an interest rate of 9 1/2 per annum. The relevant Interest Payment Date will be 29th April 1986 and the interest then payable against coupon No. 9 will be U.S.\$2306.60 per U.S.\$30,000 Note and U.S.\$230.66 per U.S.\$5,000 Note.

29th October 1985

By: Citicorp International Bank Limited, Agent Bank

MITSUI FINANCE ASIA LIMITED

(Incorporated in the Cayman Islands)

US\$150,000,000

Guaranteed Floating-Rate Notes 1997

In accordance with the provisions of the Notes, notice is hereby given that for the three month period, October 28, 1985 to but excluding January 28, 1986 the Notes will carry an Interest Rate of 8 1/2 per annum. Coupon will be US\$217.22 on the Notes of U.S.\$10,000.

**Mitsui Finance Trust
International Limited**

Agent Bank

Anglo American Auto Auctions Inc.

a subsidiary of

The British Car Auction Group PLC

has been merged with

Sandgate Corporation

The undersigned acted as financial advisor to
Sandgate Corporation in this transaction.

DEAN WITTER REYNOLDS INC.

New York Atlanta Boston Chicago Houston
Los Angeles Philadelphia San Francisco London

October 1985

UK COMPANY NEWS

David Lascelles assesses Guinness Peat's bid for Britannia Arrow

Proposed marriage of phoenixes

IF A BOLD takeover bid is the mark of corporate self-confidence, then Guinness Peat is back on its feet.

The widely-expected £212m bid for Britannia Arrow comes barely three years after the financial services group was reeling on the brink of bankruptcy. And it bears all the marks of the man who pulled the group back from disaster, Mr Alastair Morton, its chief executive.

Should he succeed—and Britannia was bristling with hostility yesterday—Guinness Peat would match in size Britain's largest merchant bank, with substantial interests in banking, investment management and insurance, and other things besides. Financial services marriages, however, are not best made forcibly, and a successful outcome may only be the first step to making a combination that works.

The joining of GP and Britannia would be a marriage of phoenixes.

When Mr Morton took over in 1981, Guinness was in dire straits, wracked by losses at its Lewis and Peat commodity business and burdened by debt. Since then, through a combination of ruthlessness and sheer force of will, which made him as many enemies as friends, Mr Morton has straightened out GP, with a reconstructed balance sheet and a profitable, if oddly assorted, string of businesses.

They include Guinness Mahon, the accepting house, Fenchurch, an insurance broker, and Guinness Peat Securities which manages interests in property, energy, and other ventures. It

also has an investment management business and a 23.7 per cent stake in Guinness Peat Aviation, a highly successful aircraft leasing company.

The theme that pulls all this together is asset management, which Mr Morton defines in the broad sense of enhancing value for investment clients, fund managers and shareholders.

Britannia is the reconstruction of the Slater Walker group where the days of glory ended abruptly in the 1970s. Starting almost from scratch, the management, under Mr Michael Newman, has built up a highly successful financial conglomerate.

Through a spate of acquisitions in the last couple of years, it has a £4.5bn investment management business, split between the UK, where it is one of the leading unit trust managers, and the U.S. where it controls about \$4bn. It also owns National Employers Life, the life insurance company and Singer & Friedlander, the small accepting house.

The appeal of a merger for GP is that both groups are in similar lines of business with minimum overlap. GP's investment management is mainly in UK institutional business, with currency funds run from the Channel Islands. Britannia's strength on the UK market is at the retail end with its unit trust, and it has large interests in America, where GP has nothing.

In the insurance market, GP is in broking, and Britannia is in underwriting.

Mr Morton claims that both groups own accepting houses and they are not businesses that can



Mr Alastair Morton

be readily married against their management's will. GP wants to combine the two if its bid goes through, but unless Singer comes willingly, it will waste no time and sell it.

That would mark yet another upheaval for Singer which has changed hands three times in 15 years, though its management, under Mr Tony Solomons, has weathered it well. If it came to another sale, Mr Solomons might consider a buy-out, but given the high cost of financing such deals, would probably opt for a public flotation.

The people question must also come up at the top level. Mr Morton claims that he and Mr Newman have frequently, and amicably, discussed what a com-

bined group would look like with the last time being over dinner only a few weeks ago. But whether amicability could survive a hostile takeover is a question to which the City might give a sceptical answer. Even the name of the merged entity would depend on the atmosphere at the time of consummation.

More fundamentally, Mr Morton will have to convince the City that there is logic to the combination. Some analysts doubted yesterday that it would amount to more than the sum of its rather too numerous parts, though it matches the present fashion for financial conglomerates.

For GP, the merger would complete the creation of a broadly-based financial services group. That implies that Mr Morton would have achieved his goal and that the acquisition end flood of new paper he has initiated in the last 18 months would be over. Since he arrived, GP's issued shares have nearly quadrupled from 67m to 243m. The Britannia acquisition would more than double them to almost 500m.

For once, this is a City alliance that owes nothing to Big Bang. Mr Morton is deeply sceptical about the opportunities for profit in the new markets being shaped by the City revolution. He thinks successful companies should concentrate on building strong balance sheets rather than committing capital to an uncertain business.

"We'll be as big as Kleinwort's and Warburg's," he said, "without their commitment to Big Bang."

See Lex

China & Eastern to join London SE

China & Eastern Investment Company claimed to be the first listed company to offer direct investment in China since the fall of the Manchurian empire, is being brought to the market by Baring Brothers, the London merchant bank.

Baring's investment management subsidiary, Baring International Fund Managers, will manage the investment company which is incorporated in Hong Kong. Initially around 15 per cent of the company's assets are expected to be invested directly in China, with the remainder mainly in Japanese and Hong Kong quoted companies with strong business connections to China.

The issue has been preplaced, but the £200m described is invited for up to 25 per cent of the 17m shares on offer. The shares are priced at \$1.00 or 71p, at the option of the applicant.

Every five shares will be issued with one warrant, exercisable being awarded on October 1, 1988 and September 30, 1991, to subscribe for one ordinary share at the price of \$1.

While the level of direct investment in China may rise over the next five years to around 30 per cent of China & Eastern's assets, Baring intends to restrict its direct investments, in view of the lack of liquidity of such investments and the pre-

sent uncertainty of the regulatory environment within China.

Investments in any one company will generally not exceed \$800,000 or 2 per cent of China & Eastern's gross assets. Baring does not intend to take more than 15 per cent of the equity of any project, but expects to piggy-back on joint ventures between other Western companies and China.

James Capel is broker to the issue. Dealings are expected to start on November 12.

● comment

However appealing the idea of riding piggy-back on China's four modernisations, the prospects of taking a profit from

China & Eastern's direct investments look distinctly long term.

"Ventures at all best, with the added political risk," has the kindest thing one broker could find to say of this aspect of the fund's investments. Even if the investments bear fruit, getting earnings out of China could prove challenging. Baring has, however, secured the services of two Beijing-based advisers, the Chinese hierarchy for the fund's advisory council, which should at least keep it in touch with the government's governing foreign investment. And getting in at the start could provide a big advantage in years to come, if China opens up more fully.

See Lex

Rush & Tompkins improvement

Rush & Tompkins Group, holding company with property investment and building and civil engineering interests, has increased pre-tax profits for the six months to June 30 1985 from \$1.17m to \$1.23m, in spite of difficulties in the UK construction market.

Mr Derek Palmer, chairman, says the company has taken steps to strengthen further its control over costs.

Its regional presence has been enlarged by the acquisition of a construction business based in Leeds.

The northern region has had a good year, particularly in its success in obtaining the contract for the \$20m Metro centre at Gateshead, Tyne and Wear. Work on the contract is on schedule. The international construction division completed the main phase of the Ethiopian dam on schedule and in time for the

rainy season. The whole project will be finished by the end of the year.

The company says it still experiences delays in contracts being awarded even when it has submitted the lowest prices.

The group's UK property portfolio has been strengthened by the acquisition of offices in central London as announced in June. The purchase was financed partly by the issue of 1.1m new shares with the balance of £1.8m paid in cash.

The sale of older industrial investments continues and the company is refurbishing its investment property at Sidcup, Kent. This is expected to cost about £2.5m and will be spread over several years, considerably enhancing the building's investment quality.

In the U.S., the first building of a contract at Princeton is complete and is being handed

over to the purchasers. The company's Washington retail scheme is on schedule for completion by the end of the year.

An interim dividend of 2.2p (2p) is being paid. The company has changed its accounting year end to March 31 and will be issuing a second interim statement covering the year to December 31 and paying a further interim dividend in April 1986.

Turnover was up at \$57.1m (\$49.04m) with net profits of £1.22m (£1.17m). Tax was £140,000 (£15,000) and interest charges were £1.68m (£1.04m). The company says the increased interest charges reflect higher worldwide rates throughout the period. The fall in rates during the early part of the current half will benefit the company in the future, it says.

Earnings per share were stated at 9.7p (9.2p).

Reorganisation puts Top Value in black

THE CONSEQUENCES of reorganisation at Top Value Industries, clothing manufacturer, continue—as predicted—to be felt during 1986, according to Lord Barnett, chairman, commenting on results which show the company back in profit.

A loss of £16,628 had been turned into a pre-tax profit of £1,415 for the six months to June 28 1985. Turnover, however, was slightly down at £2.19m against £2.33m.

Lord Barnett says that in the manufacturing division, the changes introduced by the new management team are gradually taking effect and sales and production are increasing in line with a carefully planned programme.

In the retail division, the new discount chain is beginning to take shape and an experienced general manager has been appointed. The first store will be open for Christmas trade and several more are under negotiation.

There was again no tax charge and extraordinary debts were £36,955 (£11,818). Earnings per 10p share were stated at 0.04p (loss 0.42p).

Thos. Tilling ahead

Thomas Tilling, industrial holding company owned by BTI, has improved pre-tax profits by 18 per cent in the half year to June 29 1985.

On turnover ahead from £744.4m to £763.7m operating profits were £50.5m (£49.1m), and the pre-tax profit of £2.3m (£40.1m) was struck after other income of £7.5m (£3.8m), and finance costs of £10.7m (£12.8m). Stated earnings per share rose by 0.3p to 2.4p after a tax charge of £15.3m (£16m).

Associate boosts Samuel Props.

ATURNROUND of \$563,000 in the contribution from its Bryant Samuel associate enabled Samuel Properties to report pre-tax profits up by 11 per cent on turnover little changed in the year to the end of June.

Turnover for the London-based property investment holding company, was slightly down at £18.06m, against £18.17m. Pre-tax profits, however, improved from £12.12m to £14.6m.

From earnings per share of 6.4p (5.18p), the directors are recommending a final payment of 2.25p, up from last year's 4p, making a total for the year of 8.65p (5.58p).

Profit before interest came out at \$5.09m (£4.33m), however, interest payments were greatly increased from \$450,000 to £1.84m leaving operating profit of \$3.25m (£3.77m). Mr

P. M. Samuel, chairman, says the increase was due to property dealing in the U.S.

The pre-tax figure was boosted by a profit of £205,000 from Bryant Samuel, against losses last time of £553,000. Mr Samuel says that at Waltham Abbey, Essex, completion of the £225m improved the attractiveness of its property. Elsewhere, the company has continued to secure lettings end, with rent reviews, there should be a further improvement in profitability next year.

The tax charge was £1.46m (£773,000) the increase being the result of the phasing out of stock relief and lower capital allowances. Minorities took £14,000 (£15,000) and there were extraordinary items of £553,000 (£1,070m) mainly relating to the disposal of investment properties during the period.

At the year end the group's property portfolio was revalued, resulting in a net surplus of £3.05m which has been credited to unrealised capital reserves.

In the group's commercial portfolio, the chairman considers the most important feature to have been the acquisition of three fully-let investment properties in Central London, Wimbledon, and Greenford, Middlesex for a total of £7m in 1984.

Mr Samuel says that the board is confident that the policy of improving the quality of the property portfolio by acquiring freeholds and long leaseholds and disposing of leasebacks and other properties which are not considered to have satisfactory growth potential will result in a significant increase in rental income and net asset value.

COMPANY NEWS IN BRIEF

GALLAGHER'S third quarter group turnover was \$245.7m compared with \$750.7m, making a total of \$2.36m (£2.15m) for the nine months ended September 30 1985. These figures were incorrectly stated as \$251.4m (£212m) and £1.79m (£1.61m) respectively.

THE INDUSTRIAL and General Trust is lifting its interim dividend from 1.2p to 1.4p net, and forecasting a final of 2.4p (2.3p) for the year to March 31 1986. For six months ended September 30 last, net profit is £5.5m (£4.2m) for earnings of 2.54p (1.93p) per share. Net asset value after prior charges at per was 197.5p (186.5p).

PROTAX (LONDON), manufacturer and importer of photographic equipment, achieved taxable profits of £47,000, against £40,000, for the first six months of 1985 on turnover lower of £2.88m (£3.18m). No dividends have been paid since 1982.

GRAND CENTRAL Investment Holdings shows an increased loss

of £18,947 in the first half of 1985 (£5,468), equal to 0.13p (0.04p) per share. Compensation monies totalling £207m have been received from Sri Lanka and placed on deposit—the equivalent sterling amount was £1.53m.

COOKSON GROUP'S offer for Frank Hensell Group has received acceptances for 6,032,577 ordinary (99.3 per cent) and 815,736 (97.6 per cent) preferred ordinary shares, and has become unconditional. The offer and the cash alternative will remain open until further notice.

HAYS GROUP, based in Guildford, has acquired Roberts Petroleum, which is Humberside based and supplies 280 service station outlets concentrated in the Midlands, Lincolnshire and Cambridgeshire.

OCEAN MARINE, the Morsoside based division of the Ocean Transport and Trading Group, has taken over Grace Beazley Travel from John Holt group.

New Issue

This announcement appears as a matter of record only.

October 23, 1985



COMMERZBANK OVERSEAS FINANCE N.V.

(Incorporated with limited liability in the Netherlands Antilles)

DM 500,000,000

Floating Rate Notes of 1985/1995

guaranteed by

COMMERZBANK AKTIENGESellschaft
Frankfurt/Main

Issue Price: 100% · Interest: LIBOR + 1/4 per cent p.a., payable semi-annually in arrears in April and October, maximum interest rate 8 1/4% p.a., minimum interest rate: none · Final Maturity: October 1995 · Denomination: DM 10,000 and DM 250,000 · Security: unconditional and irrevocable guarantee of Commerzbank Aktiengesellschaft, Frankfurt/Main, Negative pledge · Listing: Frankfurt/Main

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County Bank Limited

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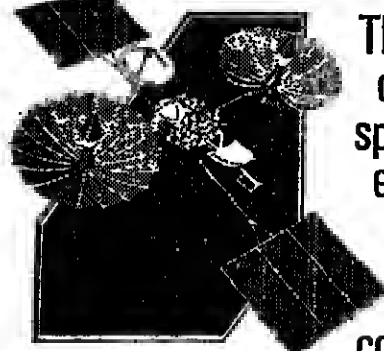
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UK COMPANY NEWS

Bunzl's £95m Utd. Parcels offer

BY DAVID GOODHART

Bunzl, the aggressively acquisitive paper, plastics, cigarette filters and distribution group, yesterday unveiled a surprise agreed bid for United Parcels, valuing it at £95.2m.

The company, of which Mr James White, non-executive chairman of United Parcels, is managing director, is offering two of its shares plus convertible loan stock valued at \$86p for every nine United Parcels shares. At last night's closing prices that valued each Parcel share at 150p, with a cash alternative of 140p.

In May Bunzl made an unsuccessful bid for Brammer, bearings distribution group, but earlier this month clinched another agreed £30m share offer for Stewart Plastics.

The company said its financial strength would enable United Parcels to develop an "ambitious growth strategy," while its overseas connections would help United add an international dimension to its operations.

Bunzl made pre-tax profit last year of £27.5m on turnover of £887m and in September announced a 57 per cent increase in interim profits to £19.02m with a full-year forecast of £40m.

Although the company has little direct experience of the transport and parcels sector in the UK, it has relevant experience in the U.S. Mr White, who masterminded the bid, knows the company and sector well as its non-executive chairman and former transportation director of the Lex Service Group.

He said yesterday that United Parcels would form the core of Bunzl's long-awaited "fifth division" and further acquisitions would be made "with cash not paper" to mop up some of the struggling smaller operators in an industry still suffering from overcapacity.

At present over 70 per cent of Bunzl's profits come from the U.S. but United Parcels—made £7.1m on turnover of \$66m to the year end January 1985 and is expected to make £8m this year—should shift the balance back to about 42 per cent, close to Bunzl's 1981 level.

United has recently acquired the profitable York Trailer Holdings and the loss-making Atlas Express. The latter has been heavily rationalised with 28 depots cut to 16, turnover cut by £4m and the workforce cut



Mr James White

by 20 per cent. United Parcels is also soon to launch an overnight service.

Ironically, the improvement of United's image in the City and the doubling of its share price over recent months owes a great deal to Mr White as well as to its strong operational management.

The bid was welcomed as a good move by most analysts. Mr Tony Fennie of James Capel said there should be no dilution from the extra shares issued because of the expected rise in profits.

Acceptance of the offer will involve the issue of 14.7m Bunzl shares (19 per cent of the present issued share capital) and about £26.1m in nominal value of the Bunzl convertible stock, including shares issued for the Stewart agreed bid. Bunzl's shares in issue will rise from 77m to 92m.

The market seemed to respond favourably to the news. Bunzl's share price fell only 3p to close at 497p; United Parcels rose 32p to close at 145p. Bunzl said the offer represented a 28 per cent premium on the middle market price of 118p on October 25. Bunzl yesterday acquired "4.9 per cent of United Parcels taking its total to 23.8 per cent.

Bunzl has been growing fast in recent years. In 1981 its market capitalisation stood at about £25m and when the United Parcels deal is completed it should top £470m.

Drayton Premier receives £158m bid

By Clive Wolman

The National Coal Board Pension Fund yesterday launched a £158m bid for Drayton Premier Investment Trust which is managed by Montagu Investment Management (MIM).

The Drayton Premier share price soared yesterday from 446p to 515p, 15p above the value of the offer. The NCB pension fund, with total assets of over £60m, currently has a 32.2 per cent stake in Drayton Premier which it has built up over the last six years.

Drayton Premier chairman Mr John Shaw said last night: "This is a serious offer from a serious quarter but no one should rush to accept." The Drayton Premier board will meet on Tuesday to respond to the offer, today or tomorrow, he said.

The bid is unusual in that the offer price is fixed at 500p per share rather than being based on a formula dependent on the underlying net asset value of the trust. The offer price represents a discount of about 7.5 per cent to the trust's net asset value which is estimated at 540p.

The offer is present is thus less generous than most bids for investment trusts which are made at prices much closer to net asset value. However, during the period of the bid, the US group which has developed an electronic share-dealing system, in a deal of much more modest proportions than that proposed last June.

Reuters announced yesterday that it has reached agreement in principle to pay \$10.5m (£6m) for a 6.9 per cent stake in Instinet and warrants which would raise its stake to 18.4 per cent. Initially Reuters hoped to buy 20 per cent of Instinet with an option to take its holding to a controlling 51 per cent.

The British group's ambitions have run into opposition from Instinet's board and its other shareholders which are unwilling to give Reuters control.

Mr Bill Euphen, Instinet chairman, said: "The board sees more value in the near term so we don't want to sell 51 per cent at this point." Mr Glen Renfrew, Reuters chairman, commented: "We have got pretty well what we wanted for the immediate future. We have a low-cost, low-risk entry into the market with a smaller shareholding."

Reuters will buy 400,000 new Instinet shares and three-year warrants to buy up to 1.2m more new shares at \$22.50 a share. It will pay \$4.5m in cash and the balance at Reuters option in cash or shares. The revised deal gives Reuters a holding of 18.4 per cent to those held by a number of U.S. brokerage houses. CMNY Capital Corp, a subsidiary of

Ward White puts agreed £53m bid for Owen Owen

BY CHARLES BACHELOR

Ward White, the fast-growing retailing and shoe-making group, is making an agreed £53m takeover bid for Owen Owen, the Liverpool-based department store chain, in a move which blocks an earlier £40m offer from Clayform Properties.

Ward has won the backing of the holders of 81.37 per cent of Owen's shares in a move intended to prevent any rival bid. Burton Group, Mr Ralph Halpern's menswear company, was believed to have been interested in Owen.

This is the third big retailing acquisition by Ward in the past year and will bring its takeover spending in the period to £224m.

Ward has been building up a broadly-based retailing operation on both sides of the Atlantic in the past few years. In the UK it paid £55m for Halfords, the bicycle and motor accessory group, and £19m for Maynards, the toy retailer and confectionery manufacturer. It made an unsuccessful bid worth £27m for Foster Brothers Clothing, a menswear chain, last February. It is now finalising the purchase for \$4m (£2.5m) of

a further 15 stores in Florida. Mr Philip Birch, chairman of Ward White, said he planned to improve the trading performance of Owen's 21 stores by tightening financial controls, developing Owen's small credit card operation and applying Ward's management expertise.

Owen has been recovering recently from losses in 1982 and 1983 resulting from its troubled Canadian subsidiary, which has since been sold. It has forecast a marked improvement in the year to January, against last year when it made a pre-tax profit of £1.5m on turnover of £85m.

Mr Birch said: "Our first priority is to improve the performance of the stores. If we get a winning formula then we will roll it out with additional stores."

Owen's department store business represents a new departure for Ward, which has previously been involved in more specialised fields of retailing. Ward looked at Owen several years ago but dismissed it as a takeover prospect because of the family holdings of more than 40 per cent. However, when Clayform launched its bid on

October 10 Ward began talks with the Owen board. Ward bought a 2.27 per cent holding while talks were being held to give itself controlling stake in combination with the 49.1 per cent holding which has been committed to the deal by the three families related to the founder, by directors and their associates.

Ward is offering 12 of its own shares for every seven Owen shares shareholders will be entitled to a 10p second interim dividend from their company but will not rank for Ward's interim payment of 1.95p for the year ending January 1986.

Ward will offer a cash alternative worth 49p for each Owen share. Morgan Grenfell, Ward's merchant bank, has underwritten the alternative offer up to a value of 450p leaving Ward to make up the difference with a 10p cash payment. The maximum cash payment by Ward would be £398,000.

Ward's shares rose 12p to 314p yesterday to value its offer at 53p for each Owen share. Owen's shares rose 23p to 523p. Ward is also offering 100p cash for each Owen 5.5 per cent £1 cumulative preference share.

Allied London advances to £3.35m

A YEAR of further progress at Allied London Properties has seen the pre-tax profits rise from £2.84m to £3.35m, and the net asset value go up by 8p to 160p.

Shareholders draw benefit from an increase in their dividend and a proposal for a one-for-two scrip issue. The final dividend is 1.85p, a net total of 2.1p, against 1.7p.

The company draws rental income from its portfolio of offices, warehouse/industrial and retail, and a house building subsidiary. It continues to invest and develop in the south-east and around the M25, and with the final completion of the motorway further lettings resulting in 70 per cent of the office accommodation have been concluded. Negotiations for remaining space are in hand.

Income for the year ended

June 30, 1985 rose from £7.52m to £8.57m, while administration expenses and interest charges both showed increases. After tax £871,000 (£446,000) the net profit comes to £3.85m (£2.99m) for earnings of 6.82p (7.16p) basic and 6.82p (8.3p) fully diluted. This time there are extraordinary credits of £856,000.

A professional valuation at June 30 shows the property portfolio to be £78.2m, which has been incorporated in the accounts. The portfolio comprises 55 per cent offices, 39 per cent warehouse/industrial and 6 per cent retail.

At Central House, Hounslow, further lettings resulting in 70 per cent of the office accommodation have been concluded. Negotiations for remaining space are in hand.

The office development in Gerrards Cross is fully let. In the centre of the town a former Woolworth store has been acquired and relet on satisfactory terms.

comment

Allied London Properties' profits and dividend growth are certainly pleasant to behold, but more important is what the asset value has done, and the simple fact is that it has done very little. The revaluation reserve grew by only £364,000 to £35.125m, indicating disappointing growth in value of what is otherwise an attractive portfolio. Allied London is not alone in experiencing poor asset value growth. Peachey Property's results earlier this month and Samuel Properties' figures yesterday confirmed that property companies generally are struggling against a sluggish market background. The difference between them, however, is that with Allied London's shares up 4p at 120p yesterday, the 8 per cent discount to the diluted net asset value of 120p is looking pretty tight against the market. The stock market is that with Allied London's shares up 4p at 120p yesterday, the 8 per cent discount to the diluted net asset value of 120p is looking pretty tight against the market.

figures yesterday confirmed that property companies generally are struggling against a sluggish market background. The difference between them, however, is that with Allied London's shares up 4p at 120p yesterday, the 8 per cent discount to the diluted net asset value of 120p is looking pretty tight against the market.

The market may forgive one bid but to justify this rating Allied London will need to deliver next time.

Virani sells Woodhouse stake for £0.4m profit

BY FRANK KANE

Virani Group, the leisure, hotel and property group privately owned by Mr Nazim Virani, has made a profit of around £400,000 on the sale of its 22 per cent holding in Woodhouse and Rixson, the Sheffield-based forgemaster.

It was disclosed yesterday that the holding of 2.02m shares had been sold at 40p. Mr Virani said that he had paid "about half" for the shares, which began to purchase nine months ago.

The stake was sold by broker Capel Cure Meyers and is

believed to have gone to more than one institutional client.

The sale adds speculation that Mr Virani was about to bid for W & R. He insisted that the holding had always been "just an investment. We were backing the management at W & R, but we had a good offer and thought we'd take it."

Mr Virani also said that talks were continuing between Belhaven Brewery, the Scottish company of which he is head, and George Bateman and Son, the family-controlled Lincolnshire brewer.

David & Charles to join OTC market

BY FRANK KANE

David & Charles Publishers, known for its railway and leisure books, is being brought to the over-the-counter market by the Guidehouse Group, with an issue of 4.5m new shares.

The issue is intended to raise £1.5m, to be used to exploit David & Charles's backlist of titles and to allow it to bid higher for new titles.

The company, which also operates specialist book clubs, reported pre-tax profits of £254,000 in the nine months to January 31, on a turnover of £5.6m, and forecasts a profit of not less than £450,000 for the year ending January 31 1986.

Its earlier profit record is, however, rockier, with substantial losses recorded in 1982 and 1983. The company suffered from a period of book club warfare, brought to an end earlier this year following the intervention of the Office of Fair Trading. The acquisition of Heritage Fine Arts at the same time also proved indecisive.

The shares are priced at 30p, a multiple of 7.2, according to a tax charge. Broker to the issue is Kitch & Aitken. A market will be made in the shares by a subsidiary of Guidehouse.

Allied-Lyons boosts Canadian operation

Allied-Lyons, which is facing a £150m takeover bid from Elders Ltd, the Australian company, yesterday announced plans to strengthen the marketing of its wines and spirits in Canada, through the purchase of a 49 per cent stake in William Mara, a Canadian importer and distributor.

It is paying £51m (£5.2m) for its stake in Mara, a subsidiary of Corby Distilleries Ltd, Montreal. Mara will market Allied's wines and spirits products, such as Harvey's Bristol Cream sherry and Teacher's Scotch from early 1986. Mara's distribution activities, currently concentrated in Ontario and Quebec, will expand to cover the country.

Allied-Lyons has, until now, used nine agents in the Canadian market. The company said the deal had been in the pipeline for months and had no connection with the Elders bid.

PCT PETROLEUM, USM, quoted oil company, is now 2.26 per cent owned by Det Norske Oleselskap of Norway.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corresponding dividend	Total last year
Allied London Props	1.85p	Jan 7	2.1p	1.7p
Goldsmiths Group	2.1p	Jan 7	2.1p	2.5p
Freemantle Holdings	0.7p	Jan 7	1.05p	0.6p
Rush & Tompkins	2.2p	Jan 6	5.85p	5.5p
Samuel Properties	4.25p	Dec 13	2p	6.6p
Usher-Walker	2.2p	Dec 16	0.5p	2.15p
Viking Resources	0.55p	Dec 16	0.5p	1.15p

Dividends shown pence per share except where otherwise stated. * Equivalent after allowing for scrip issue. † On capital increased by rights and/or acquisition issues. ‡ USM stock. § Unquoted stock.

Wells Fargo & Company

U.S. \$150,000,000

Floating Rate

Subordinated Notes

due 1992

In accordance with the provisions of the Notes, notice is hereby given that for the interest period

29th October, 1985 to 28th November, 1985

the Notes will carry an interest rate of 8.2575% per annum.

Interest payable on the relevant interest payment date 29th November, 1985 will amount to US\$71.36 per US\$100,000 Note.

Agent Bank: Morgan Guaranty Trust Company of New York, London

Wells Fargo & Company

£60,000,000

Floating Rate

Subordinated Notes

due January 1994

In accordance with the provisions of the Notes, notice is hereby given that for the interest period

28th October, 1985 to 28th January, 1986

the Notes will carry an interest rate of 11 1/4% per annum.

Interest payable on the relevant interest payment date 28th January, 1986 will amount to £148.37 per £5,000 Note.

Agent Bank: Morgan Guaranty Trust Company of New York, London

McKechnie Brothers

ANNUAL RESULTS

Pre-tax profit increased 13%

“Pre-tax profits are a record and would have been substantially higher but for the devaluation of currencies in which some of them are generated.

Trading profits in the United Kingdom increased by more than 25%. Record results were achieved by subsidiary and associate interests in New Zealand. Our South African associates maintained profits in local currency terms and accounted for 13% of the Group's pre-tax total.

We expect to maintain the improving trend from the United Kingdom. New Zealand profits are ahead to date though it seems unlikely that their economy can continue to be so favourable to our operations. Our South African associates continue to trade profitably. Overall we remain cautiously optimistic about the Group's prospects. 99

Dr J. M. Butler Chairman

Summary of Results	1985	1984
Turnover	221,743	202,834
Profit before tax	16,379	14,491
Ordinary dividend	4,820	4,380
Ordinary dividend per share	8.00p	7.28p
Earnings per share	16.1p	17.3p

McKechnie Brothers plc
Leighwood Road, Aldridge, Walsall WS9 8DS

FERROUS AND NON-FERROUS METALS, PLASTICS, CONSUMER PRODUCTS.

Goldsmiths £0.3m midway loss

Goldsmiths Group of jewellers, pawnbrokers, hoteliers and insurance consultants, is maintaining its interim dividend at 2p net per share, although it has run up a pre-tax loss of £298,000 in the half year ended August 31 1985, compared with a profit of £165,000.

In jewellery there was an operating loss of £391,000 (£129,000) but the division is trading satisfactorily and the full year should see an improvement on 1984-85. There was no contribution from insurance (£20,000); this continues to experience pressure on rates and margins but it is thought that action being taken will correct this.

The betting division produced £280,000 (£375,000) but, as this was sold earlier in the year, results are not directly comparable. Full-year group figures will be affected by the acquisition of Heritage Hotels, which currently loses money during January/February.

The following year will see a significant contribution to profits particularly during the summer, thereby reducing the seasonal effect of the jewellery side.

The directors point out that comparisons of trading figures in jewellery are difficult because of expansion. Sales more than doubled reducing the acquisition of Walker and Hall; although the loss increased comparison on a like-for-like basis and including Walker and Hall reflects an improvement of £323,000 (£714,000 loss).

comment

Investors were not amused when Goldsmiths signalled a few weeks ago that it would make a loss in the first half. Having moved down from a high of 237p, shares yesterday stalled at 176p as the market digested the sombre announcement. The real problem is Mr Goyer's insurance

interests, injected into the group last year, which appear to be sinking in an increasingly competitive market for motor insurance. Having just broken even in the seasonally stronger first half, in the second half insurance is likely to be a drain on resources as well as on management time.

Meanwhile, the company's strength has hitherto been its ability to make share acquisitions, which have quickly improved both assets and earnings. In the latest switch from betting shops to hotels it may have lost its touch by paying for more than their value for the Heritage Hotels, which are not likely to match the £600,000 contribution from the betting shops for several years. Profits of about £1.2m look likely this year, implying a 10/1 ratio of 17. Unless the company can sort out, or preferably sell, its insurance operations quickly, the shares may fall further.

This announcement appears as a matter of record only.

October 1985



Dencora p.l.c.

£10,000,000

Medium Term Loan

Arranged by

County Bank Limited

Funds provided by

County Bank Limited

Postipankki (UK) Limited

National Westminster Bank PLC

Standard Chartered Bank

Agent

County Bank Limited

1984
£50.1m

1983
£37.1m

1982
£33.0m

1981
£29.3m

1980
£22.8m

1979
£18.2m**

1978*
£10.6m**

Since they've been Allied, Lyons have taken off.

Since 1978, Lyons's pre-tax profits have risen from £10.6m to £59m, an increase of over 450%.

This advertisement is published by Allied-Lyons PLC whose directors (including those who have delegated detailed supervision of this advertisement) have taken all reasonable care to ensure that the facts stated and opinions expressed herein are fair and accurate. Each of the directors accepts responsibility accordingly.

IMPORTANT. If you are in any doubt about this prospectus you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser.

A copy of this prospectus, which comprises listing particulars with regard to China & Eastern Investment Company Limited (the "Company") in accordance with The Stock Exchange (Listing) Regulations 1984, has been delivered to the Registrar of Companies in England and Wales for registration in accordance with those regulations. A copy of this prospectus, the written consent referred to in paragraph 13(b) of Part VII and copies of the material contracts referred to in paragraph 9 of Part VII, have been delivered to the Registrar of Companies in Hong Kong for registration as required by Section 380 of the Hong Kong Companies Ordinance. The Registrar of Companies in Hong Kong takes no responsibility as to the contents of these documents.

Application has been made to the Council of The Stock Exchange, London for admission to the Official List of the Ordinary Shares and Warrants of the Company issued and now being issued through this Offer for Subscription (the "Offer"). The directors of the Company (the "Directors"), whose names appear below, are the persons responsible for the information contained in this prospectus. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information. The Directors accept responsibility accordingly.

The Application List for the Ordinary Shares (with Warrants) now being offered for subscription will open at 10.00 hours (London time) on Friday, 1st November, 1985 and will close not later than the close of business on that day. The procedure for application and an Application Form are set out at the end of this prospectus.



China & Eastern Investment Company Limited

(Incorporated in and under the laws of Hong Kong with limited liability)

OFFER FOR SUBSCRIPTION

by

Baring Brothers & Co., Limited

of 17,000,000 Ordinary Shares of US50 cents each (with 3,400,000 Warrants) at US\$1 per Ordinary Share or, at the option of each applicant, 71p per Ordinary Share, payable in full on application.

Timetable

Latest time for receipt of applications	10.00 hours (London time) Friday, 1st November, 1985
Expected date for posting of Share and Warrant certificates	Monday, 11th November, 1985
Expected date of commencement of separate dealings in the Ordinary Shares and Warrants	Tuesday, 12th November, 1985

The distribution of this prospectus and/or the offering of Ordinary Shares and/or Warrants may be restricted in certain jurisdictions; persons into whose possession this prospectus comes are required by the Company to inform themselves of and to observe any such restrictions. In particular this prospectus may not be used for the purpose of an offer or solicitation in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised.

Neither the Ordinary Shares nor the Warrants are being registered under the United States Securities Act of 1933. Accordingly, they may not at any time, directly or indirectly, be offered, sold or delivered in the United States (which expression means the United States of America, its territories, possessions and any areas subject to its jurisdiction), or to or for the benefit of any person who is a national or citizen or a resident or normally a resident thereof, including the estate of any such person, or to any corporation, partnership or other entity created or organised in or under the laws of the United States or any political subdivision thereof. In order to give effect to these restrictions, every applicant for Ordinary Shares (with Warrants) will be required to make the declaration in the form contained in the Application Form.

Potential subscribers should inform themselves as to (a) the possible tax consequences, (b) the legal requirements and (c) any foreign exchange restrictions or exchange control requirements which they might encounter under the laws of the countries of their citizenship, residence or domicile and which might be relevant to the subscription, holding and disposal of Ordinary Shares and/or Warrants and/or the exercise of Warrants.

Any information given or representation made by any dealer, salesman or other person and not contained herein should be regarded as unauthorised and should accordingly not be relied upon. Neither the delivery of this prospectus nor the offer, issue or sale of Ordinary Shares or Warrants shall, under any circumstances, constitute a representation that the information given in this prospectus is correct as of any time subsequent to the date hereof. This prospectus is issued solely for the purpose of the present Offer for Subscription.

Neither this prospectus nor any other offering material relating to the Ordinary Shares and the Warrants may be issued or distributed in Hong Kong.

References in this prospectus to US\$, US dollars and cents are to the lawful currency of the United States of America.

Statistical Information

Unless stated otherwise, the statistics on China, Japan and Hong Kong in this prospectus are derived from published sources. Potential investors should be aware that the collation of statistics, although quoted or extrapolated in good faith, is always difficult, particularly in a country the size of China, and it is likely that at least in some cases such statistics may be inaccurate to a material degree. Nevertheless, the Directors consider the inclusion of (or of information based on) the published statistics concerned is more likely to be helpful than misleading to the potential investor.

I. Policy and Markets

Introduction

The principal purpose of the Company is long term capital appreciation primarily through investment in companies with direct business involvement in the People's Republic of China ("China"). One of the longer term objectives of the Company is to establish substantial direct investment there. The uncertainties inherent in the present system of direct investment in China, particularly as to the regulations on corporate ownership, repatriation of profits, accounting practices and legal structure, could delay or even frustrate the achievement of this objective. Nevertheless, the Directors believe that, based on the growth since 1979 of foreign trade with China and investments in China, both of which have been actively supported by the Chinese authorities, opportunities will continue to arise and the prospects for investment and trade will expand. It should be noted, however, that there is currently no stock exchange in China.

Japan and Hong Kong have developed significant economic and trading ties with China. Their principal stock markets list a wide range of quoted companies engaged in China-related activities. The financial statements of a number of Japanese companies reveal that such activities account for over 5 per cent. of their consolidated sales. The Directors consider this percentage to be relatively high given the short period during which the growth in foreign trade with China and investment in that country has been officially encouraged by the Chinese authorities.

The Directors consider it prudent initially to invest the large majority of the Company's gross

The Offer for Subscription has been fully underwritten by Baring Brothers & Co., Limited ("Barings"). The Directors are aware of intended applications for a total of 17,000,000 Ordinary Shares (with Warrants). Such applications, if received, will be accepted in respect of not less than 12,750,000 Ordinary Shares (with Warrants), constituting 75 per cent. of the Ordinary Shares (with Warrants) being offered for subscription. Consequently, applications from the public are likely to be accepted in respect of not more than 4,250,000 Ordinary Shares (with Warrants), constituting 25 per cent. of the Ordinary Shares (with Warrants) being offered for subscription.

Share Capital

Authorised US\$		Issued and now being issued US\$
11,500,000	in Ordinary Shares of US50 cents each	8,500,000

The Ordinary Shares now being offered for subscription rank in full for all dividends and other distributions hereafter declared, made or paid on the ordinary share capital of the Company. Successful applicants for the Ordinary Shares now being offered will receive Warrants on the basis of one Warrant for every five Ordinary Shares, each carrying the right, exercisable between 1st October, 1988 and 30th September, 1991 inclusive, to subscribe for one Ordinary Share at US\$1 per share.

Indebtedness

The Company has no loan capital (including term loans) outstanding, or created but unissued, nor any outstanding mortgages, charges, debentures or other borrowings or indebtedness in the nature of borrowing, including bank overdrafts and liabilities under acceptances or acceptance credits or other similar indebtedness, nor any hire purchase commitments or guarantees or other material contingent liabilities.

assets in companies whose shares are quoted on the Tokyo or Hong Kong stock exchanges and which are engaged in China-related activities. The Company therefore will be able to maintain both flexibility and a high level of relatively liquid investment, whilst at the same time avoiding undue political risk. Investment in companies in these two markets will be aimed at deriving maximum benefit from the prime position of Japan and Hong Kong in the opening up of China to foreign trade and investment.

The net proceeds of the issue are estimated to be approximately US\$16.14 million, which will be applied in accordance with the Company's investment policy.

Investment Policy

In keeping with the investment objectives set out above, the Company's intention is that approximately 75 per cent. of its gross assets will initially be invested in quoted Japanese and, to a lesser extent, Hong Kong companies which are believed by the Company or the Investment Manager to have continuing business activities in or with China or to have a reasonable prospect of developing such activities within three years from the making of the investment. In many cases, however, these activities will not account for more than 5 per cent. of the consolidated sales of the companies concerned and may represent an even smaller proportion.

It is also envisaged that a modest proportion of the gross assets, probably not exceeding 10 per cent. by book value, will be invested in companies quoted elsewhere, particularly in the United States, the United Kingdom and Singapore, so long as they too are believed to meet the criteria set out above.

With a view to initiating the longer term direct investment objective of the Company referred to above, it is envisaged that initially some 15 per cent. of the Company's gross assets will be allocated for

Directors, Officers and Advisers

Directors

JOHN DERRICK BOLSOVER (British) (Chairman)
9 Bishopsgate, London EC2N 3AQ, England
JONATHAN LAWRENCE COMPTON (British)
1901 Edinburgh Tower, The Landmark,
15 Queen's Road Central, Hong Kong
NIGEL EDWARD MELVILLE (British)
1605, One Exchange Square, Hong Kong
KIMISATO NAGAMINE (Japanese)
11-A-1 Imperial Tower, 1-1 Uchisaiyama-cho 1-chome
Chiyoda-ku, Tokyo 100, Japan
EDWARD REMINGTON-HOBBS (British)
9 Bishopsgate, London EC2N 3AQ, England
DAVID GEORGE PETER SCHOLFIELD (British)
1901 Edinburgh Tower, The Landmark,
15 Queen's Road Central, Hong Kong
JONATHAN JEREMY KIRWAN TAYLOR (British)
9 Bishopsgate, London EC2N 3AQ, England
JAMES PIRAN WILLIAMS (British)
9 Bishopsgate, London EC2N 3AQ, England

Advisory Council

CHRISTOPHER CHENG (Hong Kong)
HIDEO MIOTANI (Japanese)
VINCENT LO (Hong Kong)
ROBERT LAYLE (British)
MIGUO JUN (Chinese)
STEPHEN TSUNG (Hong Kong)
ZHANG FANG MING (Chinese)

Secretary and Registered Office

DAVID GEORGE PETER SCHOLFIELD
Wing On Centre, 26th Floor,
111 Connaught Road Central, Hong Kong

Investment Manager

Baring International Fund Managers Limited ("BIFM"),
1901 Edinburgh Tower, The Landmark,
15 Queen's Road Central, Hong Kong

Issuing House

Baring Brothers & Co., Limited,
8 Bishopsgate, London EC2N 4AE, England

Stockbrokers

James Capel & Co., Winchester House,
100 Old Broad Street, London EC2N 1BQ, England

Solicitors to the Company and to the Issue

Slaughter and May, 35 Basinghall Street,
London EC2V 5DB, England and 27th Floor,
Two Exchange Square, Hong Kong

Auditors and Reporting Accountants

Deloitte Haskins & Sells, (Certified Public Accountants)
Wing On Centre, 26th Floor,
111 Connaught Road Central, Hong Kong

Bankers

Bank of East Asia Limited,
10 Des Voeux Road Central, Hong Kong
Baring Brothers Asia Limited,
1605, One Exchange Square, Hong Kong
The Hongkong and Shanghai Banking Corporation,
1 Queen's Road Central, Hong Kong

Receiving Bankers

Baring Brothers & Co., Limited, 8 Bishopsgate,
London EC2N 4AE, England

Share and Warrant Registrar

Central Registration Hong Kong Limited, 18th Floor,
Hopewell Centre, 183 Queen's Road East, Hong Kong
Ravensbourne Registration Services Ltd.,
Bourne House, 34 Beckenham Road,
Beckenham BR3 4TU, England

direct investment in China. It is not expected that the initial amount will be invested quickly, or even that a substantial part of it will necessarily be invested in the first year, as a cautious approach will be adopted. These investments are likely to take a number of forms: they may, for example, be made directly in individual projects or in unquoted joint venture companies formed outside China for the purpose of such direct investment. They will generally be sponsored by local or provincial authorities, will normally involve significant management participation by foreign nationals, including overseas Chinese, and may comprise both development capital and participations in established operations. In view of the illiquidity of such investments and the present uncertainty of the regulatory environment within China, the amount of investment in any one project or company will be relatively small (generally not exceeding the greater of US\$0.5 million and two per cent. of the Company's gross assets) and the spread of investments will be wide.

Depending on the success of these initial direct investments and the continuing availability of suitable opportunities, the Directors intend that in the longer term the percentage of the Company's gross assets directly invested in China will be gradually increased. The present target is of the order of 30 per cent. of the Company's gross assets within five years. The five areas in which the Company intends to concentrate its direct investment activities are power and power generation, technology, tourism and leisure, construction and light manufacturing industry.

It is the policy of the Directors that the Company will not take legal or management control of any of the companies or projects in which it invests and that it will not normally acquire more than 15 per cent. of the equity of any one company or project. Not more than 7.5 per cent. of the Company's gross assets will be put into any one investment (taking account of any existing holdings), thereby maintaining a reasonable spread of investments. The policies described in this paragraph will be adhered to for a minimum of three years following listing of the Ordinary Shares.

China & Eastern Investment Company Limited

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Borrowings and Cash Resources

The Directors have the power to borrow amounts up to 25 per cent. of the Adjusted Capital and Reserves (as defined in the Company's Articles of Association). The Directors will also have the power to charge the Company's assets as security for any such borrowings.

The aim of the Company is to achieve long term capital appreciation in US dollars. It is intended, when considered prudent or necessary, that the risk of depreciation in US dollar terms of investments denominated in other currencies may in part be hedged through the currency futures or options markets. However, the Directors do not intend that the level of hedging at any one time will exceed 35 per cent. of the US dollar book value of the quoted investments of the Company.

While the policy of the Directors is that the assets of the Company should be kept invested in accordance with the investment policy described above, cash reserves may be held from time to time to take advantage of investment opportunities as they arise. In addition, general market conditions, particularly in Japan or Hong Kong, which may be unrelated to factors specifically affecting China, could make it advisable for the Company to maintain significant liquidity in the form of cash or short-term investments pending re-investment.

Dividend Policy

The Directors intend that substantially all the net revenue surplus will be distributed. Given the low yields available from the range of securities at attractive foreign investment, in which the Company intends to invest and the likely lack of dividend from the direct China investments in the early years, such net revenue surplus (if any) is likely to be small. With a view to providing a surplus for distribution each year, the Directors intend to establish a wholly-owned dealing subsidiary.

China

History 1949-78

The People's Republic of China was founded on 1st October, 1949, following a prolonged period of civil war and conflict with Japan, which had occupied much of the country between 1931 and 1945. The Communist Government inherited a country with virtually no heavy industry, a weak infrastructure and a substantially devalued currency. Much heavy plant and machinery had either been removed by the Russians in the North or destroyed by the defeated Nationalists in the South.

The State rapidly took over almost all sectors of the economy, notably agriculture, land, distribution and manufacturing. A series of Five-Year Plans was inaugurated, the first commencing in 1953, since when average real economic growth has exceeded 6.2 per cent. per annum. However, the population has grown rapidly, from 542 million in 1949 to 1,036 million by the end of 1984, eroding much of the benefit of these gains and leading to stringent family planning controls in the late 1970s. Considerable wastage occurred through the misdirection of investment and the setting of unrealistic targets. Throughout most of the period from 1949 to 1978, foreigners (other than from the Soviet bloc) were largely deterred from economic activity within China and the level of technology remained relatively low. However, the government did enjoy success in three areas - the maintenance of a low inflation rate, a more equitable distribution of land and food and an improvement in health conditions.

Liberalisation and Reform

By the early 1970s it became apparent that the economy was faltering. The Cultural Revolution seriously disrupted all aspects of economic and political life, particularly between 1966 and 1968, whilst the period between 1974 and 1976, under a radical left wing clique dubbed the "Gang of Four", resulted in further dislocation.

By 1978 political opinion had consolidated around three principal tenets - the need to modernise the economy, to dismantle excessive bureaucratic controls and to make greater use of market forces to stimulate production. There was also a widespread desire not to repeat the mistakes of the Cultural Revolution. This school of opinion, led by Deng Xiaoping, has been the basis of economic policy to the present day.

The pace of change arising from these reforms has accelerated in the last few years. The first joint ventures with foreigners commenced in 1979 and have rapidly grown by number and value. Four Special Economic Zones established in 1980 aimed at attracting foreign investment, whilst in 1984 14 coastal cities were established as special areas for foreign investment and trading. In view of the overheating of the economy discussed in Part VI, foreign investment in 10 of these has been temporarily curtailed and it is still too early to judge the success of the other four. Between 1978 and 1982 real economic growth averaged 5.8 per cent. per annum compared with 4.4 per cent. per annum in the period 1957 to 1978.

At the Chinese Communist Party conference held in September, 1985, the outline economic plan for the years 1986 to 1990 was approved. The plan, which is still subject to final adjustment, indicated that, despite competition from other quarters within the party, China is continuing to develop reforms directed at further decentralisation of the governmental planning process and the opening up of some sectors of the economy to competitive market forces. However, this plan and various speeches made by senior officials including Premier Zhao Ziyang suggest that in 1986 and 1987 governmental spending will not be increased over the 1985 level and that emphasis will be given to balancing imports by exports and concentrating foreign investment and technology in export related industries. The plan sets an annual growth target for 1986-90 of 7 per cent.

Further detailed information on China is set out in Part VI.

Why China?

It is the Directors' belief that the opening up of China to foreign trade and investment is not a temporary phenomenon. It is a central feature of the government's programme and has already created and continues to give rise to conditions and expectations which, in the light of published statements by senior officials, the Directors consider, that the Chinese government would not wish to reverse or disappoint. Moreover, the cooperation which China has received from overseas in implementing this policy has both accelerated its effect in the short term and encouraged China to continue and expand its scope.

From a relatively low economic base progress can be rapid, as China has illustrated, but it is unlikely to be smooth. It is recognised that the risks associated with direct investment in China are many. Nevertheless, it is the Directors' conviction that, if the current political and economic policies are adhered to, China, which until recently was a minor economic power outside mainstream developments within the Far East, will in time assume a role more proportionate both to its geographical size and position, and to its population and natural resource base.

Japan and China

To compensate for a slowdown in world economic growth in the early 1980's and the emergence of protectionist sentiment in North America and Europe, Japanese companies have successfully sought new markets and increased their competitiveness. This is reflected in the recent marked recovery of exports, which during the years 1980 to 1984 grew at an average of 10.2 per cent. per annum (in yen terms), and in the consequent transformation of an annual deficit on balance of payments current account of US\$17.5 billion at the beginning of the period into a surplus of US\$35.3 billion at the end. The rate of inflation was reduced over the period from 4.5 per cent. to 2.2 per cent. (after a low of 1.8 per cent. in 1983), whilst an average annual real growth rate of 4.3 per cent. per annum over the period was achieved (compared with an average of 1.9 per cent. per annum in the member nations of the Organisation for Economic Co-operation and Development). This growth rate has been mirrored by a steady upward trend in the leading Japanese stock market indices over the last 10 years.

Trade between Japan and China has increased, rising fourfold in the last decade, and in 1984 Japan accounted for 26 per cent. of total Chinese foreign trade (in US dollar terms). Many Japanese companies now regard China as a major market with great potential for the future. Whilst Japan's imports from China are predominantly mineral products, it is in textile products that the main expansion has occurred. The interdependence of the two countries is growing, with Japanese imports from China rising from 2.6 per cent. of total Japanese imports in 1973 to 4.4 per cent. in 1984. For statistical information on the Japanese economy and stock market performance see Part VI.

CHINA'S TRADE WITH JAPAN

YEAR	CHINA'S IMPORTS US \$m	CHINA'S EXPORTS US \$m
1972	609	491
1973	1,039	974
1974	1,984	1,305
1975	2,259	1,531
1976	1,663	1,371
1977	1,939	1,547
1978	3,049	2,030
1979	3,699	2,955
1980	5,078	4,323
1981	5,095	5,292
1982	3,511	5,352
1983	4,912	5,087
1984	7,217	5,958

Source: Ministry of Finance of Japan

Hong Kong and China

In 1984 Hong Kong had one of the highest economic growth rates in the world, with a real increase over 1983 in Gross Domestic Product of 9.6 per cent. to a total of US\$31.92 billion. This was achieved after two years in which growth rates were constrained by the global recession, especially the downturn in trade, and by the uncertainty about the future of Hong Kong, and is above the average annual growth rate of 8.8 per cent. achieved in the 10 years to 1984. In his recent review of Hong Kong's economic performance for the first half of this year, Hong Kong's Financial Secretary recorded downward revision of growth rates for 1985 to 4.9-5.5 per cent. in real terms. The overall success of the Hong Kong economy is widely attributed to limited intervention by the government and the relatively free market that exists, with manufacturers having the flexibility to shift production to meet demand.

The Hang Seng index has recorded a compound growth rate of 18 per cent. per annum in the 10 years to 31st August, 1985, although the Hong Kong stock market has historically been one of the most volatile in the world. This volatility has been exacerbated by relatively loose controls over the banking system, especially in bank lending, as well as the erratic performance in the early 1980's of the Hong Kong dollar against the US dollar (which partly a reaction to political uncertainty). However, in October, 1983, the value of the Hong Kong dollar was officially linked at HK\$7.30 to the US dollar, since when the exchange rate against the US dollar has remained stable.

Since 1949 the Chinese government has never recognised the arrangements, commencing with the Treaty of Nanjing in 1842, under which Britain acquired Hong Kong. In recent years, however, Sino-British relations have improved significantly. A conference about Hong Kong's future started in September, 1982, and after two years of negotiation a draft agreement between the governments of the United Kingdom and China on Hong Kong was published in September, 1984. Both governments ratified the Joint Statement about the Hong Kong issue in May, 1985 under which China will regain sovereignty over Hong Kong on 1st July, 1997. The Joint Statement provides that the present political and economic structure will be maintained for 50 years thereafter, enshrined in the 'One Country Two Systems' policy to be practised by China. The British Government will continue to be responsible for administration until 30th June, 1997.

These political developments about the future of Hong Kong have followed the rapid growth of trading relationships between Hong Kong and China. Between 1979 and 1984 China's share of Hong Kong's overseas trade rose from 10.5 per cent. to 21.4 per cent. and by the end of 1984 China had become Hong Kong's most important trading partner in US dollar terms. The Directors believe that Hong Kong has already become the 'de facto' commercial capital of southern China and has assumed the role of China's principal entrepot. Moreover, for most foreign corporations it is probably the most convenient and practical city to use as a base for operations in China. As a result of these factors, it is the Directors' opinion that the Hong Kong economy will become increasingly dependent upon the health of the Chinese economy for its own success and that the stock market of Hong Kong will gradually be transformed into a barometer of the Chinese economy and Chinese political stability. For statistical information and stock market performance on the Hong Kong economy see Part VI.

CHINA'S TRADE WITH HONG KONG

YEAR	CHINA'S IMPORTS HK \$m	CHINA'S EXPORTS HK \$m
1972	103	3,847
1973	271	5,634
1974	296	5,991
1975	165	6,805
1976	147	7,761
1977	206	8,082
1978	295	10,550
1979	1,918	15,130
1980	6,247	21,948
1981	10,968	29,510
1982	11,798	32,935
1983	18,406	42,821
1984	39,348	55,753

Source: Hong Kong Trade Statistics

opinion that the Hong Kong economy will become increasingly dependent upon the health of the Chinese economy for its own success and that the stock market of Hong Kong will gradually be transformed into a barometer of the Chinese economy and Chinese political stability. For statistical information and stock market performance on the Hong Kong economy see Part VI.

Risk Factors

An investment in the Ordinary Shares or Warrants may be regarded as particularly susceptible to the following risks:-

1. In view of the relatively small percentage of consolidated sales and capital employed which the companies in which the Company is proposing to invest are likely to have in China, the risk of their share prices being affected by factors not specifically relating to China.
2. With regard to that part of the portfolio which is directly invested in China, its likely illiquidity, the currency risk as between the Yuan and the US dollar, the existing restrictions on the remittance of dividends and repatriation of capital and the risk of those restrictions being tightened (see Part VI, Section A paragraph 4) and the general China political and economic risk, including the risk of expropriation of foreign assets.
3. The inevitable uncertainty surrounding the implementation of the provisions of the Sino-British Joint Statement on Hong Kong, the jurisdiction of incorporation and the residence of the Company.

II. Directors, Advisory Council and Management

Directors

The following are the Directors of the Company. It is intended that a representative of institutional shareholders be invited to join the Board once listing has been obtained. With the exception of Nigel Melville and Edward Remington-Hobbs all the Directors are Executive Directors of BIFM, with whom the Company entered into an investment management agreement.

John Bolsover (Chairman), aged 38, has been the Managing Director of Baring International Investment Management Limited ("BIFM") since its establishment in 1975 in Hong Kong, where he lived from 1971 until September, 1985. He is now Chief Executive of the BIFM group, based in London, and continues to specialise in Japanese and Asian stock markets.

Jonathan Compton, aged 32, joined BIFM in Hong Kong in 1981, having specialised in international investment, with particular emphasis on Hong Kong, China and South East Asia, since 1976. He is responsible for all the Company's direct and indirect investment in Hong Kong and for monitoring developments in China.

Nigel Melville, aged 40, is a director of Baring and Managing Director of Baring Brothers Asia Limited. He has been in Hong Kong since 1983 and was previously based in Singapore for five years. He joined Baring in 1974 and has specialised in corporate finance.

Kimisato Nagasawa, aged 42, is the Managing Director of BIFM in Tokyo. He worked with Nomura Securities Co., Limited for 16 years until 1981, the last four of which he spent in Hong Kong, before joining BIFM. In 1982 he established BIFM's Tokyo office. His specialist area continues to be Japanese stock market investment.

Edward Remington-Hobbs, aged 30, worked for James Capel & Co. until joining BIFM in London in 1982. Early in 1984 he was moving to BIFM's Tokyo office where part of his brief will be to concentrate on developments between Japan and China.

David Schofield, aged 41, is the Managing Director of BIFM's Hong Kong subsidiary, and is responsible for administration. He joined BIFM in 1982 after 20 years in The Royal Scots Dragon Guards.

Jonathan Taylor, aged 42, was closely involved whilst in Hong Kong in the setting up of BIFM in 1975, and has been a director of BIFM since 1976. He returned to England in 1978 to establish BIFM's London office, of which he is Managing Director. He worked for Baring between 1969 and 1975.

James Williams, aged 35, was one of the original directors of BIFM when it was formed in 1975. He worked in Hong Kong from 1975 until 1981, specialising in Japanese and Asian stock market investments. Since 1981 he has been based in the BIFM office in London managing investments in Asia.

The present Directors have indicated that, in view of the management fee to be payable to BIFM (see paragraph 9(b) of Part VII), they intend that the Company will pay them no fees.

Advisory Council

The Advisory Council is established by the Company's Articles of Association and its members appointed and removed by the Directors. The Directors will consult the Advisory Council formally twice a year or more frequently where appropriate on relevant aspects of the Company's affairs, and, in particular, will submit to the Advisory Council plans for the implementation of the investment policies of the Company.

The members of the Advisory Council are not Directors of the Company and have no executive authority. They will receive fees or annual retainers as determined by the Directors (and fixed at US\$4,000 each for the first year) and expenses in respect of their services.

The following have agreed to serve on the Advisory Council:-
Christopher Cheng, Managing Director of Wing Tai Group of companies, has, for the last 10 years, been a member actively involved in many of the Hong Kong Government's advisory bodies relating to trade and industry. He has also acted as an adviser to the Hong Kong Government's international trade negotiations.

Etsuo Hosonuma is based in Japan. For 26 years he worked for Matsushita Electric Industrial ("MEI"). He is now a technical adviser to, inter alia, MEI and Matsushita Technology Research.

Vincent Lo is the Managing Director of the Hong Kong quoted Shui On Group Limited, a construction and investment company operating in Hong Kong and China.

Robert Lyle is a director and co-founder of Barry Palmer & Lyle Limited, a company specialising in the management and insurance of financial risk in international investment and trading projects, and managing director of its subsidiary, BPL (China) Limited.

Mi Guo Jun is the Managing Director of China International Trust and Investment Corporation (Hong Kong) prior to which he worked at the Chinese Embassy in Japan and was a member of the Permanent Chinese Delegation to the United Nations.

Stephen Tsang was born in Shanghai and has lived in Hong Kong for 16 years. He is now a director of Oliver Rimmer N.L., a quoted Australian company engaged in trading and project investment in China, prior to which he worked for ANZ Finance (Far East) Limited as Chief Manager with responsibilities including that of "Country Head" for China.

Zhang Fang Ming is an Assistant Manager of the China International Trust and Investment Corporation (Hong Kong), the principal overseas and investment corporation of China, and is a deputy director at the Ministry of Foreign Trade.

Investment Management

The Directors will be responsible for the determination of the Company's investment policy and will have overall control of the Company's activities. The Company has appointed BIFM as investment manager to manage the Company's portfolio on a day-to-day basis and to be responsible for specific investment decisions.

BIFM is a wholly-owned subsidiary of BIFM. BIFM was incorporated in Hong Kong in 1976 as Henderson BIFM Management Limited and subsequently changed its name to Henderson Baring Fund Managers Limited. On 22nd January, 1985 its name was changed to Baring International Fund Managers Limited in consequence of Baring acquiring the full ownership of BIFM, and thus indirectly of BIFM, by its purchase of the shares in BIFM previously held by Henderson Administration Group plc.

On 17th September, 1985 BIFM moved its head office from Hong Kong to London. BIFM however remains managed and controlled in Hong Kong. The BIFM group has offices in Hong Kong (established in 1975), Tokyo (established in 1982) and Boston (established in 1982).

BIFM group employs 15 investment managers, 12 of whom specialise in the Far Eastern stock markets. The group's total staff is 86 of whom 55 are employed in Hong Kong and five are employed in Tokyo. BIFM's policy is to limit the number of portfolios managed by each manager in order to provide a more effective service, and the average client to manager ratio is approximately 5:1.

On 19th September, 1985 the BIFM group managed or advised 55 accounts with total assets of over US\$1,500 million, comprising 28 portfolios for pension funds, nine offshore and co-invested funds, six United Kingdom authorised unit trusts, seven Japanese funds, one investment trust and four governmental, individual and bank funds.

Management Fee

BIFM will receive the equivalent of an annual fee of 1/4 per cent. of the value of the Company's net assets, determined and payable quarterly in arrears and will not receive any other remuneration from the management of the Company's assets. The terms of the BIFM management agreement are summarised in Part VII paragraph 9(b).

III. Ordinary Shares and Warrants

It is proposed that the Company should raise the sum of US\$17,000,000 (before the expenses of the issue) by the issue of 17,000,000 Ordinary Shares of US\$1 each (with Warrants) at a subscription price of US\$1 per Ordinary Share or, at the option of each applicant, 719 per Ordinary Share (including a premium of US\$60 cents per Ordinary Share), payable in full on application. The Ordinary Shares now being issued will rank in full for all dividends and other distributions hereafter declared, made or paid on the ordinary share capital of the Company.

Successful applicants will receive Warrants, no the basis of one Warrant for every five Ordinary Shares. Each Warrant will confer the right to subscribe for one Ordinary Share. The Warrants will be exercisable between 1st October, 1985 and 30th September, 1991 inclusive at a subscription price of US\$1 per Ordinary Share. The number of Warrants (and of Ordinary Shares into which they are exercisable) and the subscription price per Ordinary Share are subject to adjustment in certain circumstances. Further details of the Warrants are set out in Part V.

IV. Taxation and Stamp Duty

Investors should consult their professional advisers on the possible tax and stamp duty consequences of buying, holding or selling Ordinary Shares or Warrants or exercising Warrants under the laws of their country of citizenship, residence or domicile.

The following summary of the position in Hong Kong and the United Kingdom is based on the law and practice currently in force and is subject to any changes therein.

Hong Kong

Since the Company will be carrying on business in Hong Kong it will be chargeable to Hong Kong profits tax (currently at the rate of 16.5 per cent.) in respect of its profits. Hong Kong profits tax may also be payable in respect of the Company's income derived from Hong Kong and any interest received accruing to the Company. The Directors consider that, in view of the investment objectives and policies described above, the amount of profits tax for which the Company will be liable in any year is not, under current law and practice, likely to be material.

No tax will be payable in Hong Kong in respect of dividends of the Company or in respect of any capital gains arising on the sale of Ordinary Shares or Warrants, except that Hong Kong profits tax may arise in the case of certain persons carrying on a trade, profession or business in Hong Kong.

Any person who effects a sale or purchase of Ordinary Shares or Warrants is required under Hong Kong law to execute a contract note and the note to be stamped. Contract notes attract stamp duty at the rate of 0.3 per cent. (i.e. 0.3 per cent. for the sale and a further 0.3 per cent. for the purchase). If, in the case of a sale or purchase of Ordinary Shares or Warrants by a person who is not resident in Hong Kong, the stamp duty on either or both of the contract notes is not paid, the transferee will be liable to pay stamp duty on the instrument of transfer in an amount equal to the unpaid duty.

United Kingdom

On the basis (as is intended) that for taxation purposes neither the central management and control nor the day-to-day management of the Company will be undertaken in the United Kingdom, the Company should not be liable to United Kingdom corporation tax on its income or gains.

Subject to their individual circumstances, shareholders resident in the United Kingdom for taxation purposes will be liable to United Kingdom income tax or corporation tax in respect of dividends and other income distributions of the Company and holders to resident of Ordinary Shares or Warrants (unless holding Ordinary Shares or Warrants as dealing stock when different rules apply) will normally be liable to United Kingdom capital gains tax or corporation tax in respect of gains arising from the sale or other disposal of Ordinary Shares or Warrants. Individual shareholders who are so resident but not domiciled in the United Kingdom may be liable to such tax only on income or gains remitted to the United Kingdom.

For the purposes of United Kingdom tax on capital gains the amount subscribed by initial subscribers for Ordinary Shares (with Warrants) will need to be apportioned. It is anticipated that under present law and practice, the ratio of five times the market value of an Ordinary Share to the market value of a Warrant on the first day Ordinary Shares and Warrants are traded (expected to be 12th November, 1985) should be accepted by the Inland Revenue as the appropriate ratio by which to apportion the Issue Price. Where Ordinary Shares (with Warrants) are applied for in US dollars, the base cost for the purposes of United Kingdom tax on capital gains will be treated as being the sterling equivalent at the spot rate prevailing on the date the application is accepted (expected to be 11th November, 1985).

The exercise of Warrants will not, under present law, constitute the disposal of an asset for the purposes of United Kingdom tax on capital gains and any base cost attributable to the Warrants exercised will be added to the base cost of the Ordinary Shares so acquired. On exercise of Warrants (in US dollars), the subscription price will be translated into sterling at the spot rate prevailing at the close of business on the exercise date.

The attention of individuals ordinarily resident in the United Kingdom is drawn to Section 478 of the Income and Corporation Taxes Act 1970 (the "Tax Act"), as amended by the Finance Act 1981, which may render them liable to income tax in respect of the proportionate part of the undistributed income of the Company attributable to their holdings of Ordinary Shares. Individuals who are so ordinarily resident but who are not domiciled in any part of the United Kingdom may only be liable to such tax in respect of income remitted to the United Kingdom.

Clearance under Section 464 of the Taxes Act (cancellation of tax advantages from certain transactions in securities) has been received from the United Kingdom Board of Inland Revenue in relation to the issue by the Company of Ordinary Shares (with Warrants) for cash and (save in the case of a sale to a company in which the vendor has a substantial interest) in relation to the subsequent sale of such Ordinary Shares and Warrants through any stock exchange on which Ordinary Shares and Warrants in the Company are listed or dealt in.

The attention of United Kingdom resident companies is drawn to the fact that the controlled foreign companies provisions contained in the Finance Act 1984 could be material to any United Kingdom resident company that holds, alone or together with certain other associated persons, 10 per cent. or more of the Ordinary Shares in the Company, if at the same time the Company is controlled by persons who are resident in the United Kingdom.

The Finance Act 1984 provides that if an investor resident or ordinarily resident in the United Kingdom for taxation purposes holds a material interest in an offshore fund, and that fund does not qualify as a distributing fund throughout the period that the investor holds that interest, any gain accruing to the investor upon the sale or other disposal of that interest will be treated as income and not as a capital gain. The Directors have taken advice as to whether the Ordinary Shares or Warrants constitute material interests in an offshore fund. They have been advised that the Warrants do not. They have also been advised that an Ordinary Share would not constitute such an interest unless, at the time of its acquisition, it could then reasonably be expected that the Ordinary Share could be realised within seven years for an amount reasonably approximate to the proportion of the market value of the assets of the Company attributable to that Ordinary Share. The Directors consider that it would not be reasonable for any person who acquires Ordinary Shares pursuant to the Offer for Subscription to expect to realise such an amount for his Ordinary Shares within that period. This conclusion is based on the Directors' understanding that the Inland Revenue's current practice is not to view a closed-end investment company as an offshore fund unless the price at which its shares are traded approximates to the market value of its assets on a regular basis. The Directors consider that it cannot reasonably be expected that, having regard to the volatility of the market, the Ordinary Shares will trade on a regular basis at a value which is reasonably approximate to the market value of the Company's assets. In these circumstances it is considered that the persons acquiring Ordinary Shares pursuant to the Offer for Subscription will not acquire material interests in an offshore fund. Accordingly, the Directors do not believe that the establishment of a wholly-owned dealing subsidiary (which would prevent the Company from qualifying as a distributing fund) is likely to be contrary to the interests of subscribers.

V. Particulars of the Warrants

The Warrants were created by a resolution of the Board of Directors of the Company passed on 25th October, 1985 and will be issued subject to and with the benefit of the following conditions:

1. Subscription Rights and Compulsory Exercise

(a) Each Warrant shall confer upon the registered holder thereof (the "holder") the right, which may be exercised at any time (and whether or not concurrently with the exercise of any other Warrant held by him) from and including 1st October, 1985 to and including 30th September, 1991, to subscribe for one Ordinary Share at the price of US\$1 (the "Subscription Price"); provided that the number of Warrants registered in the name of each holder (and accordingly the number of Ordinary Shares for which such holder would subscribe on any subsequent exercise in full of such Warrants) and the Subscription Price shall be subject to adjustment as provided in paragraph 2 below (and references herein to the Subscription Price shall be construed accordingly).

Subject to sub-paragraph (b) and to paragraphs 3(b) and (c) below, after 30th September, 1991 any Warrants which have not been exercised will lapse and Warrant certificates will cease to be valid for any purpose.

References in these particulars to Ordinary Shares are to the existing Ordinary Shares of US 50 cents each and all other (if any) Ordinary Shares from time to time and for the time being ranking pari passu therewith.

(b) In order to exercise all or any of his Warrants the holder must, having completed the Notice of Subscription on the relevant Warrant certificate, lodge it at the office of the Registrars of the Company or of the London Transfer Agent accompanied by a remittance for the total subscription moneys for the Ordinary Shares in respect of which such Warrants are exercised. Once lodged, a Notice of Subscription shall be irrevocable save with the consent of the Directors. Compliance must also be made with any statutory requirements for the time being applicable.

(c) The Ordinary Shares issued pursuant to the exercise of Warrants will be allotted not later than 21 days after and with effect from the date the relevant application is lodged as aforesaid (the "Exercise Date"). The allotment in respect of such Ordinary Shares will be issued not later than 28 days after the Exercise Date. The allotment will be made to the persons in whose names such Warrants are registered at the Exercise Date or (subject as permitted by law) to such other persons as may be named in the Notice of Subscription. If less than all the Warrants evidenced by such certificate are exercised, the Company shall at the same time issue a fresh Warrant certificate in the name of the holder for the balance of such Warrants remaining exercisable.

(d) Ordinary Shares allotted pursuant to the exercise of Warrants will not rank for any dividends or other distributions declared, made or paid in respect of any financial year of the Company prior to the date on which the Exercise Date falls but, subject thereto, will rank pari passu in all other respects with the Ordinary Shares in issue at that Exercise Date.

(e) Application will be made to the Council of The Stock Exchange for the Ordinary Shares allotted pursuant to any exercise of Warrants to be admitted to the Official List and the Company will use all reasonable endeavours to obtain the grant thereof not later than 28 days after the relevant Exercise Date.

China & Eastern Investment Company Limited

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11. Articles of Association

The Articles of Association of the Company, which are similarly available for inspection, contain *inter alia*, provisions to the following effect:-

Borrowing Powers

The Board of Directors ("the Board") may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Ordinance, to issue debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

The Board shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiaries (if any) so as to secure (but as regards subsidiaries only in so far as by the exercise of such rights or powers of control the Board can secure) that the aggregate principal amount from time to time outstanding of all borrowings (as defined in the Articles of Association) by the Group (exclusive of borrowings owing by one member of the Group to another member of the Group) shall not at any time without the previous sanction of an ordinary resolution of the Company exceed an amount equal to 25 per cent. of the Adjusted Capital and Reserves (as defined in the Articles of Association). (Note: These provisions, in common with the Articles of Association generally, can be varied by a special resolution of the Company.)

Voting Rights

Subject to any special terms as to voting upon which any shares may be issued or may for the time being be held, on a show of hands every Member who is present in person at a general meeting of the Company shall have one vote, and on a poll every Member who is present in person or by proxy shall have one vote for every U.S.50 Cents nominal amount of share capital of which he is the holder.

Changes in Share Capital

The Company may from time to time by ordinary resolution increase its capital by such sum to be divided into shares of such amounts as the resolution shall prescribe.

Subject to the Ordinance, the Company may, by the resolution increasing the capital, direct that the new shares or any of them shall be offered in the first instance to all the holders for the time being of shares of any class or classes in proportion to the number of such shares held by them respectively or may make any other provisions as to issue of the new shares.

The new shares shall be subject to all the provisions of the Articles with reference to lien, the payment of calls, forfeiture, transfer, transmission and otherwise.

The Company may from time to time by ordinary resolution:

- consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;
- sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association (subject, nevertheless, to the Ordinance) and so that the resolution whereby any share is sub-divided may determine that as between the holders of the shares resulting from such sub-division one or more of the shares may have any such preferred or other special rights over, or may have such deferred or qualified rights or be subject to any such restrictions as compared with, the other or others as the Company has power to attach to unissued or new shares;
- cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person and diminish the amount of its authorised share capital by the amount of the shares so cancelled;

and may also by special resolution:

- subject to any confirmation or consent required by law, reduce its authorised and issued share capital or any capital redemption reserve or any share premium account in any manner.

Modification of Rights

Subject to the Ordinance, all or any of the special rights for the time being attached to any class of shares for the time being issued may from time to time (whether or not the Company is being wound up) be altered or abrogated with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of such shares.

Issue of Shares

Subject to the provisions of the Ordinance and these Articles, the unissued shares of the Company (whether forming part of the original or any increased share capital) shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and on such conditions and upon such terms and conditions as the Board may determine.

Note: There are no provisions of Hong Kong law equivalent to Sections 89-96 of the Companies Act 1985 (provision rights on the allotment of equity securities for cash) but, in principle, rights for existing shareholders will apply to such an allotment by the Company by virtue of the Stock Exchange's listing requirements, in the absence of an ordinary resolution of the Company in General Meeting.

Transfer of Shares

Subject to such of the restrictions of these Articles as may be applicable, any Member may transfer all or any of his shares by an instrument of transfer in the usual common form or in any other form which the Board may approve.

The instrument of transfer of a share shall be signed by or on behalf of the transferor and (in the case of a partly paid share) the transferee, and the transferor shall be deemed to remain the holder of the share until the same of the transferee is entered in the Register in respect thereof. All instruments of transfer, when registered, may be retained by the Company.

The Board may, in its absolute discretion and without assigning any reason therefor, decline to register any transfer of any share which is not a fully paid share.

The Board may also decline to register any transfer unless:-

- the instrument of transfer is lodged with the Company accompanied by the certificate for the shares to which it relates, and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer;
- the instrument of transfer is in respect of only one class of share; and
- in the case of a transfer to joint holders, the number of joint holders to whom the share is to be transferred does not exceed four.

If the Board declines to register a transfer it shall, within two months after the date on which the instrument of transfer was lodged, send to the transferee notice of the refusal.

No fee shall be charged by the Company for registering any transfer, or other document relating to or affecting the title to any share, or for otherwise making any entry in the Register relating to any share.

Directors

Unless and until otherwise determined by ordinary resolution of the Company, the Directors (disregarding alternate Directors) shall be not less than two nor more than 15 in number.

Each of the Directors shall be paid a fee at such rate as may from time to time be determined by the Board provided that the aggregate of all such fees so paid to Directors (excluding amounts payable under any other Article or under any other paragraph of this Article) shall not exceed 20,000 U.S. Dollars per annum, or such higher amount as may from time to time be determined by ordinary resolution of the Company.

No shareholding qualification for Directors shall be required.

Without prejudice to the power of the Company in general meeting in pursuance of any of the Articles to appoint any person to be a Director and subject to the Ordinance, the Board shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Board, but so that the total number of Directors shall not at any time exceed any maximum number fixed by or in accordance with these Articles. Any Director so appointed by the Board shall hold office only until the next following annual general meeting and shall then be eligible for re-election but shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at such meeting.

At every annual general meeting one-third of the Directors for the time being or, if their number is not a multiple of three, then the nearest number to but not exceeding one-third shall retire from office.

The Board may from time to time appoint one or more of its body to be a Managing Director, Joint Managing Director or Assistant Managing Director or to hold any other employment or executive office with the Company for such period (subject to the Ordinance) and upon such terms as the Board may determine and may revoke or terminate any of such appointments. Any such revocation or termination as aforesaid shall be without prejudice to any claim for damages that such Director may have against the Company or the Company may have against such Director for any breach of any contract of service between him and the Company which may be involved in such revocation or termination.

An Executive Director shall receive such remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine, and either in addition to or in lieu of his remuneration as a Director.

Each Director may be paid his reasonable travelling, hotel and incidental expenses of attending and returning from meetings of the Board or committees of the Board or general meetings or any other meeting which a Director is entitled to attend and shall be paid all expenses properly and reasonably incurred by him in the conduct of the Company's business or in the discharge of his duties as a Director. Any Director who, by request, goes or resides outside the jurisdiction in which he normally resides for any purposes of the Company or who performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to any remuneration provided for by or pursuant to any other Article.

A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the Board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case at the first meeting of the Board after he becomes so interested. For the purposes of this Article, a general notice to the Board by a Director to the effect that (a) he is a member of a specified company or firm and is to be regarded as interested in any contract or arrangement which may after the date of the notice be made with that company or firm or (b) he is to be regarded as interested in any contract or arrangement which may after the date of the notice be made with a specified person who is connected with him, shall be deemed to be a sufficient declaration of interest under this Article in relation to any such contract or arrangement provided that no such notice shall be effective unless either it is given at a meeting of the Board or the Director takes reasonable steps to secure that it is brought up and read at the next Board meeting after it is given.

Save as otherwise provided by these Articles, a Director shall not vote (nor be counted in the quorum) on any resolution of the Board in respect of any contract or arrangement in which he is to his knowledge materially interested, and if he shall do so his vote shall not be counted, but this prohibition shall not apply to any of the following matters namely:-

- any contract or arrangement for giving to such Director any security or indemnity in respect of money lent by him or obligation undertaken by him for the benefit of the Company;
- any contract or arrangement for the giving by the Company of any security to a third party in respect of a debt or obligation of the Company which the Director has himself guaranteed or secured in whole or in part;
- any contract or arrangement by a Director to subscribe for shares, debentures or other securities of the Company issued or to be issued pursuant to any offer or invitation to Members or debenture holders of the Company or any class thereof or to the public or any section thereof, or to underwrite any shares, debentures or other securities of the Company;
- any contract or arrangement in which he is interested by virtue of his interest in shares or debentures or other securities of the Company or by reason of any other interest in or through the Company.

APPLICATION FORM

The Application List for the Ordinary Shares (with Warrants) will open at 10.00 hours (London time) on Friday, 1st November, 1985 and will close not later than close of business on that date.

This Application Form when completed should be lodged with or posted to Baring Brothers & Co., Limited, 8 Bishopsgate, London, EC2N 4AE, England so as to arrive not later than 10.00 hours (London time) on Friday, 1st November, 1985 accompanied EITHER by the payment of US dollars in US dollars or by a cheque drawn on a bank in London or by a cheque drawn in US dollars on the London US Dollar Clearing Scheme OR, in the case of payments in sterling, by a separate cheque or banker's draft in sterling on a bank or branch thereof, and payable, in England, Scotland or Wales or drawn on a clearing bank branch in the Channel Islands or the Isle of Man, and made payable to "Baring Brothers & Co., Limited" and crossed "Not Negotiable". A separate cheque or draft must accompany each application, which may not be considered unless these conditions are fulfilled. Photostat copies of Application Forms will not be accepted.

CHINA & EASTERN INVESTMENT COMPANY LIMITED

(Incorporated in and under the laws of Hong Kong with limited liability)

OFFER FOR SUBSCRIPTION

17,000,000 Ordinary Shares of US\$0.50 each (with Warrants) at US\$1 per Ordinary Share or, at the option of each applicant, 71p per Ordinary Share payable in full on application.

*Applications must be for a minimum of 200 Ordinary Shares and integral multiples thereof.

To: The Directors

China & Eastern Investment Company Limited
Gentlemen.

I/We enclose a cheque/draft payable to Baring Brothers & Co., Limited for the above-mentioned sum, being the amount payable on application for the above-stated number of Ordinary Shares of US\$0.50 each (with Warrants) and I/we hereby apply for that number of Ordinary Shares (with Warrants) and I/we agree to accept the same or, in the case of payments in sterling, by a separate cheque or banker's draft in sterling on a bank or branch thereof, and payable, in England, Scotland or Wales or drawn on a clearing bank branch in the Channel Islands or the Isle of Man, and made payable to "Baring Brothers & Co., Limited" and crossed "Not Negotiable". A separate cheque or draft must accompany each application, which may not be considered unless these conditions are fulfilled. Photostat copies of Application Forms will not be accepted.

I/We further agree that in consideration of the Company agreeing that it will not, prior to 1st November, 1985, offer any of the securities of the Company to any person other than by means of the Prospectus, my/our application shall be irrevocable until and including 11th November, 1985 and this sentence shall constitute a collateral contract between me/us and the Company which will become binding upon receipt of this application by Baring Brothers & Co., Limited.

I/We authorise you to send Share and Warrant certificates in respect of such Ordinary Shares and Warrants, and/or a cheque representing the return in the same currency of any application monies due to me/us, by post at my/our risk to the first address written below and I/we hereby authorise you to place my/our name(s) on the Registers of Members of the Company and of holders of Warrants as the holder(s) of the said Ordinary Shares and Warrants.

I/We declare and warrant that the cheque sent herewith will be paid on first presentation and any allotment to me/us is strictly on this understanding.

I/We declare that I/we have read and noted, and will comply with, each of the statements set out at the front of this prospectus between the Timetable and the Table of Contents.

(1) Signature..... Date....., 1985

Please use Block Letters
Joint applicants must sign and complete below.

(2) Signature.....
Forename(s) in full..... Surname and Designation.....
(Mr., Mrs., Miss, Title or Rank)
Address in full.....
(A Corporation should complete this Form under the hand of a duly authorised official who should state his capacity)

(3) Signature.....
Forename(s) in full..... Surname and Designation.....
(Mr., Mrs., Miss, Title or Rank)
Address in full.....

(4) Signature.....
Forename(s) in full..... Surname and Designation.....
(Mr., Mrs., Miss, Title or Rank)
Address in full.....

Applicants in the United Kingdom are strongly advised to use first class post and to allow at least two days for delivery. The Company reserves the right to present all cheques and drafts for payment on receipt and to withhold Shares and Warrant certificates and excess application monies pending clearance of applicants' cheques. No receipt will be issued for the amount paid on application. In the United States, Canada and Mexico, cheques should be payable to "China & Eastern Investment Company Limited" and crossed "Not Negotiable". Cheques returning application monies or any balance thereof, will be forwarded, in each case by post at the applicant's risk.

(v) any contract or arrangement concerning any other company (not being a company in which the Director owns 1 per cent. or more) in which he is interested directly or indirectly whether as an officer, shareholder, creditor or otherwise howsoever;

(vi) any proposal concerning the adoption, modification or operation of a pension fund or retirement fund or disability benefits scheme which relates both to Directors and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director as such any privilege or advantage not accorded to the employees to which such scheme or fund relates;

(vii) any arrangement for the benefit of employees of the Company or of any of its subsidiaries under which the Director benefits in a similar manner as the employees and which does not accord to any Director as such any privilege or advantage not accorded to the employees to whom such arrangement relates.

Note: Nothing in the Companies Ordinance disqualifies any person from being appointed a Director or requires him to vacate the office of Director by reason only of the fact that he has attained 70 years or any other age.

Advisory Council

The Board shall be advised by the Advisory Council on any and all questions and matters referred to the Advisory Council by the Board, which may in particular but without limitation include the Company's investment strategy. The Advisory Council shall have no executive powers and its functions shall be purely advisory. The Board shall not be obliged to follow any particular fact, matter or circumstance either to consult the Advisory Council or to follow its advice.

Subject to the provisions of these Articles, the Board shall appoint such persons not being Directors as they consider appropriate to be the initial Councilors, and thereafter may appoint any person not being a Director to be a Councilor, either to fill a casual vacancy or as an addition to the existing Councilors, but so that the total number of Councilors shall not at any time exceed 12.

The Board may remove any Councilor at any time.

Each Councilor shall receive such fees or retainers as the Board shall determine, and in addition shall be paid his reasonable travelling, hotel and incidental expenses of attending and returning from meetings of the Council or general meetings or any other meetings which as a Councilor he is entitled or requested to attend and shall be paid all expenses properly and reasonably incurred by him in the discharge of his duties as a Councilor. Any Councilor who, by request, goes or resides outside the jurisdiction in which he normally resides for any purposes of the Company or who performs services which in the opinion of the Board go beyond the ordinary duties of a Councilor may be paid such extra remuneration (whether by way of fees, retainers or otherwise) as the Board may determine and such extra remuneration shall be in addition to any remuneration provided for by or pursuant to this or any other Article.

Dividends

Subject to the Ordinance and as hereinafter set out, the Company in general meeting may from time to time declare dividends to be paid to the shareholders according to their rights and interest in the profits available for distribution, but no dividend shall be declared in excess of the amount recommended by the Board. Surpluses arising from the redemption of investments shall not be available for dividend.

Except in so far as the rights attaching to, or the terms of issue of, any share otherwise provide:-

- all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, but no amount paid up on a share in advance of calls shall be treated for the purposes of this Article as paid up on the share; and
- all dividends shall be apportioned and paid *pro rata* according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid.

The Board may from time to time pay to the shareholders such interim dividends as appear to the Board to be justified by the position of the Company; the Board may also pay any fixed dividend which is payable on any shares of the Company half-yearly or on any other dates, whenever such position, in the opinion of the Board, justifies such payment.

Unclaimed Dividends

Any dividend unclaimed after a period of twelve years from the date of declaration of such dividend shall be forfeited and shall revert to the Company and the payment by the Board of any unclaimed dividend, interest or other sum payable on or in respect of a share into a separate account shall not constitute the Company a trustee in respect thereof.

Reserves

The Board may, before recommending any dividend, set aside out of the profits of the Company such sums as it thinks proper as reserves which shall, at the discretion of the Board, be applicable for any purpose for which the profits of the Company may be properly applied and pending such application may, also at such discretion, either be employed in the business of the Company or be invested in such investments as the Board may from time to time think fit. The Board may without placing the same to reserve carry forward any profits which it may think prudent not to distribute.

Investment Restrictions

No investment carried at Directors' valuation amounting to 50 per cent. or more of the Company's portfolio will be realised without the consent of the Company in General Meeting.

General

(1) The Company has not since its incorporation been engaged in and is not currently engaged in any liquidation or reorganisation of material importance nor, so far as the Directors are aware, is there any litigation or claim of material importance pending or threatened against the Company.

(2) Deloitte Haskins & Sells have given and have not withdrawn their written consent to the issue of this prospectus with the inclusion herein of their Accountants' Report set out above in the form and context in which it is included.

(3) The promoters of the Company are Baring and BHM. Save as disclosed above, no amount or benefit has been paid or given to Baring or any of its subsidiaries (including BHM and its subsidiaries) since the incorporation of the Company and none is intended to be paid or given, other than in respect of fees for services which may be rendered in the future.

(4) The principal place of business of the Company is at 1901 Edinburgh Tower, The Landmark, 15 Queen's Road Central, Hong Kong. The Company does not have nor has it had since its incorporation any employees.

(5) Each dividend on the Ordinary Shares will be paid to those holders of Ordinary Shares on the register of members on the record date for such dividend. Such record date, which will normally be 6 to 8 weeks before the date of payment.

(6) Dividends will only be paid to the extent that they are covered by income received from underlying investments, shares or profits of associated companies being unavailable for this purpose unless and until distributed to the Company. However, it is intended that substantially all the net revenue surplus (if any) will be distributed.

(7) The Offer for Subscription is made by Baring on behalf of the Company. Baring is registered in England (registered number 32813) and its registered office is at 8 Bishopsgate, London EC2N 4AE, England.

(8) The founders of the Company were Ian William Goldie and Carol Wai Wing Hui, both solicitors of 27th Floor, Two Exchange Square, Hong Kong.

Documents available for inspection

Copies of the following documents will be available for inspection at the offices of Baring, 8 Bishopsgate, London EC2N 4AE, England and BHM, 1901 Edinburgh Tower, The Landmark, 15 Queen's Road Central, Hong Kong during normal business hours on any weekday (Saturdays and public holidays excepted) for 14 days from the date of this prospectus:

- the Memorandum and Articles of Association of the Company and the Hong Kong Companies Ordinance;
- the report from the Reporting Accountants set out above;
- the consent referred to in paragraph 13(b) above; and
- the material contracts referred to in paragraph 9 above.

VIII. Application Procedure

All applications for the Ordinary Shares (with Warrants) now being offered must be for a minimum of 200 Ordinary Shares and integral multiples thereof.

Each application must be made on the Application Form provided and must be accompanied EITHER, in the case of payments in US dollars, by a banker's US dollar draft drawn on a bank in London or by a cheque drawn in US dollars on the London office of a member bank of the London US Dollar Clearing Scheme OR, in the case of payments in sterling, by a separate cheque or banker's draft in sterling on a bank or branch thereof, and payable, in England, Scotland or Wales or drawn on a clearing bank branch in the Channel Islands or the Isle of Man and be lodged with or posted to Baring Brothers & Co., Limited, 8 Bishopsgate, London, EC2N 4AE, England, so as to arrive not later than 10.00 hours (London time) on Friday, 1st November, 1985. Cheques must be made payable to "Baring Brothers & Co., Limited" and crossed "Not Negotiable". A separate cheque or draft must accompany each application.

Photostat copies of Application Forms will not be accepted.

Acceptance of applications will be conditional on the Council of The Stock Exchange admitting the Ordinary Shares and the Warrants to the Official List (subject to posting of Ordinary Share and Warrant certificates) not later than 8th November, 1985. Monies paid in respect of applications will be returned (without interest) if such admission is not granted by that date and in the meantime will be retained by Baring in a separate account, the interest on which will accrue to the Company.

All cheques are liable to be presented for payment on receipt. Application monies will be retained by Baring in a separate account pending allotment or return of application monies, or any excess thereof. The right is reserved to retain Share and Warrant certificates and any surplus application monies pending clearance of applicants' cheques. The right is also reserved to reject any application or to accept any application in part only and in particular to reject multiple or suspected multiple applications. The right is also reserved to treat as valid any applications which do not fully comply with the conditions set out in the Application Form. If any application is not accepted, the amount paid on application will be returned in full (without interest) and, if any application is accepted for fewer Ordinary Shares (with Warrants) than the number applied for, the balance of the amount paid on application will be returned (without interest), in each case by cheque through the post at the applicant's risk.

No receipt will be issued in respect of any application monies received, but Share and Warrant certificates will be sent through the post to successful applicants (or, in the case of joint applicants, to the first-named applicant) in due course, at their own risk, to the address specified on the relevant Application Form. If an application is rejected or is accepted in part, the application monies (or the appropriate portion thereof) will be refunded, either by returning the relevant cheque or draft or by sending a cheque made out to the applicant (or, in the case of joint applicants, to the first-named applicant) and crossed "Account Payee Only" in each case through the post at the risk of the applicant(s) to the address specified on the relevant Application Form. It is intended that, in processing applications, special efforts will be made to avoid any undue delay in refunding application monies to any unsuccessful applicants.

Share and Warrant certificates and refund cheques in respect of wholly or partially unsuccessful applications are expected to be posted by first class mail on or before 11th November, 1985. Ordinary Shares and Warrants will be dealt in separately.

Copies of this prospectus with Application Form may be obtained from:-

Baring Brothers & Co., Limited,
8 Bishopsgate,
London EC2N 4AE,
England

James Capel & Co.,
Winchester House,
100 Old Broad Street,
London EC2N 1BQ,
England

28th October, 1985

FT COMMERCIAL LAW REPORTS

Delay can affect security for costs

JENRED PROPERTIES LTD v ENTE NAZIONALE ITALIANO PER IL TURISMO (The Italian State Tourist Office) (1985) 1 All ER 1000 (CA) (Lord Justice Nourse): October 8 1985

IN AN action by a limited company the defendant's delay in applying for security for costs or in putting forward his primary defence, is a factor to be taken into account by the court when considering the application, and, having regard to the circumstances, the court may treat the delay as an important factor in its decision. The judge had refused to make an order for security for costs in an action brought against an English company, Jenred Properties Ltd.

Section 726 of the Companies Act 1985 (previously section 447 of the 1948 Act) provides: "(1) Where a limited company is plaintiff in an action . . . the court . . . may if it appears that the company will be unable to pay the defendant's costs if successful in its defence, require sufficient security to be given for those costs."

HIS LORDSHIP said that on October 2 1985 a vendor's action by Jenred, for breach of a contract for the sale of land, was called on for hearing before Mr Justice Nourse.

One of the first things he had to do was to determine an application for security for costs by the defendant, the Italian tourist office, under section 726 of the Companies Act 1985.

He dismissed the application and refused leave to appeal. The

tourist office now applied for leave, the trial having been adjourned. It had to satisfy the court that a full Court of Appeal could properly hold that the judge had misdirected himself, or otherwise erred in law, and could thus exercise its discretion afresh. If it could not pass that test, leave to appeal must be refused.

The judge had identified nine separate factors which might tell for or against an order for security for costs. He first said there was jurisdiction to make an order, because of Jenred's precarious financial position. He then dealt with the other eight factors. Some he found in favour of the tourist office, and others in favour of Jenred.

The seventh factor was the question of delay. The judge said that the writ was issued on October 28 1983, the trial was due to start on October 2 1985, and the application for security was made on September 26 1985. It was on the face of it made very late indeed, he said.

Mr Brodie, for the tourist office, pointed out that it had breached the question of security on August 10 1984, and that the failure to answer inquiries had been a factor against an order for security for costs. The failure to make an application seemed to him more the ordnance of a decision to take a calculated risk of not stimulating a somewhat unimpressive plaintiff into unimpressive activity.

The eighth factor was the merits. The judge's view, with which it was impossible to quarrel, was that there was not even a prima facie case that the tourist office had repudiated liability under the agreement before January 1985, three months after the completion date. He added that the defence that the agreement was alive was the tourist office, which was

now the primary defence in the action, was raised on a previous interlocutory hearing only in June or July 1983.

He said that the switch from common acceptance of the validity of the agreement to repudiation on promises which, over the years, had shifted radically, did seem to be a factor in Jenred's favour in the application.

The judge had to choose between two evils. First, he said, there was the risk that the tourist office would have to bear heavy costs even if it were successful—the mischief against which section 726 was intended to guard.

Secondly, he contrasted that with the fact that the tourist office's estimated costs amounted to some £30,000 to £35,000, so that security would need to be substantial. That would make it highly improbable that Jenred could continue with the action, said the judge, and it would therefore be deprived of the chance to assert its right to damages in a case where its chances of success were evenly balanced.

He concluded that the scales came down in favour of not ordering security for costs. The two most important factors were the delay in applying, and the delay in raising the question of repudiation. Each case depended on its own facts.

In the present case it would be ordered on an application made at the start of a trial, or even at some later stage. Each case depended on its own facts.

There might be other cases in which security could be ordered on an application made at the start of a trial, or even at some later stage. Each case depended on its own facts.

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into account a defendant's delay in putting forward his substantive defence at the summary judgment stage?

Mr Brodie relied on *Sir Lindsay Parkinson (1973) 1 QB 608* as authority for the proposition that delay ought not to be taken into account at all, or only minimally.

It was true that in that case the majority judgments did not treat the delay which had occurred as being a decisive factor, but rather as a make-weight.

However, the case clearly established that the court had a general discretion to be exercised having regard to all the circumstances. The particular considerations mentioned by the Master of the Rolls in that case were merely illustrative and not intended to be exhaustive.

There was no doubt that delay was a factor which could always be taken into account and which could sometimes be treated as of importance—particularly where it had or might have led the plaintiff to act to his detriment or might cause him hardship in the future conduct of the action.

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1234</p> <p>Abney Unit Trust (n) Abney Unit Trust (n) 10, Abney Road, London, EC2A 4JH 01-425 1234</p> <p>Abney Unit Trust (o) Abney Unit Trust (o) 10, Abney Road, London, EC2A 4JH 01-425 1234</p> <p>Abney Unit Trust (p) Abney Unit Trust (p) 10, Abney Road, London, EC2A 4JH 01-425 1234</p> <p>Abney Unit Trust (q) Abney Unit Trust (q) 10, Abney Road, London, EC2A 4JH 01-425 1234</p> <p>Abney Unit Trust (r) Abney Unit Trust (r) 10, Abney Road, London, EC2A 4JH 01-425 1234</p> <p>Abney Unit Trust (s) Abney Unit Trust (s) 10, Abney Road, London, EC2A 4JH 01-425 1234</p> <p>Abney Unit Trust (t) Abney Unit Trust (t) 10, Abney Road, London, EC2A 4JH 01-425 1234</p> <p>Abney Unit Trust (u) Abney Unit Trust (u) 10, Abney Road, London, EC2A 4JH 01-425 1234</p> <p>Abney Unit Trust (v) Abney Unit Trust (v) 10, Abney Road, London, EC2A 4JH 01-425 1234</p> <p>Abney Unit Trust (w) Abney Unit Trust (w) 10, Abney Road, London, EC2A 4JH 01-425 1234</p> <p>Abney Unit Trust (x) Abney Unit Trust (x) 10, 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AUTHORISED UNIT TRUSTS & INSURANCES

<table><tr><td>Oppenheimer Fund Mgmt. Ltd. 40 Cannon St, London EC4A 3DF 01-236 5885</td><td>Swiss Life Pm. Tst. Mm. Co. Ltd. (UK) 101, 103, 105, 107, 109, 111, 113, 115, 117, 119, 121, 123, 125, 127, 129, 131, 133, 135, 137, 139, 141, 143, 145, 147, 149, 151, 153, 155, 157, 159, 161, 163, 165, 167, 169, 171, 173, 175, 177, 179, 181, 183, 185, 187, 189, 191, 193, 195, 197, 199, 201, 203, 205, 207, 209, 211, 213, 215, 217, 219, 221, 223, 225, 227, 229, 231, 233, 235, 237, 239, 241, 243, 245, 247, 249, 251, 253, 255, 257, 259, 261, 263, 265, 267, 269, 271, 273, 275, 277, 279, 281, 283, 285, 287, 289, 291, 293, 295, 297, 299, 301, 303, 305, 307, 309, 311, 313, 315, 317, 319, 321, 323, 325, 327, 329, 331, 333, 335, 337, 339, 341, 343, 345, 347, 349, 351, 353, 355, 357, 359, 361, 363, 365, 367, 369, 371, 373, 375, 377, 379, 381, 383, 385, 387, 389, 391, 393, 395, 397, 399, 401, 403, 405, 407, 409, 411, 413, 415, 417, 419, 421, 423, 425, 427, 429, 431, 433, 435, 437, 439, 441, 443, 445, 447, 449, 451, 453, 455, 457, 459, 461, 463, 465, 467, 469, 471, 473, 475, 477, 479, 481, 483, 485, 487, 489, 491, 493, 495, 497, 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Ltd. 40 Cannon St, London EC4A 3DF 01-236 5885	Swiss Life Pm. Tst. Mm. Co. Ltd. (UK) 101, 103, 105, 107, 109, 111, 113, 115, 117, 119, 121, 123, 125, 127, 129, 131, 133, 135, 137, 139, 141, 143, 145, 147, 149, 151, 153, 155, 157, 159, 161, 163, 165, 167, 169, 171, 173, 175, 177, 179, 181, 183, 185, 187, 189, 191, 193, 195, 197, 199, 201, 203, 205, 207, 209, 211, 213, 215, 217, 219, 221, 223, 225, 227, 229, 231, 233, 235, 237, 239, 241, 243, 245, 247, 249, 251, 253, 255, 257, 259, 261, 263, 265, 267, 269, 271, 273, 275, 277, 279, 281, 283, 285, 287, 289, 291, 293, 295, 297, 299, 301, 303, 305, 307, 309, 311, 313, 315, 317, 319, 321, 323, 325, 327, 329, 331, 333, 335, 337, 339, 341, 343, 345, 347, 349, 351, 353, 355, 357, 359, 361, 363, 365, 367, 369, 371, 373, 375, 377, 379, 381, 383, 385, 387, 389, 391, 393, 395, 397, 399, 401, 403, 405, 407, 409, 411, 413, 415, 417, 419, 421, 423, 425, 427, 429, 431, 433, 435, 437, 439, 441, 443, 445, 447, 449, 451, 453, 455, 457, 459, 461, 463, 465, 467, 469, 471, 473, 475, 477, 479, 481, 483, 485, 487, 489, 491, 493, 495, 497, 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Oppenheimer Fund Mgmt. Ltd. 40 Cannon St, London EC4A 3DF 01-236 5885	Swiss Life Pm. Tst. Mm. Co. Ltd. (UK) 101, 103, 105, 107, 109, 111, 113, 115, 117, 119, 121, 123, 125, 127, 129, 131, 133, 135, 137, 139, 141, 143, 145, 147, 149, 151, 153, 155, 157, 159, 161, 163, 165, 167, 169, 171, 173, 175, 177, 179, 181, 183, 185, 187, 189, 191, 193, 195, 197, 199, 201, 203, 205, 207, 209, 211, 213, 215, 217, 219, 221, 223, 225, 227, 229, 231, 233, 235, 237, 239, 241, 243, 245, 247, 249, 251, 253, 255, 257, 259, 261, 263, 265, 267, 269, 271, 273, 275, 277, 279, 281, 283, 285, 287, 289, 291, 293, 295, 297, 299, 301, 303, 305, 307, 309, 311, 313, 315, 317, 319, 321, 323, 325, 327, 329, 331, 333, 335, 337, 339, 341, 343, 345, 347, 349, 351, 353, 355, 357, 359, 361, 363, 365, 367, 369, 371, 373, 375, 377, 379, 381, 383, 385, 387, 389, 391, 393, 395, 397, 399, 401, 403, 405, 407, 409, 411, 413, 415, 417, 419, 421, 423, 425, 427, 429, 431, 433, 435, 437, 439, 441, 443, 445, 447, 449, 451, 453, 455, 457, 459, 461, 463, 465, 467, 469, 471, 473, 475, 477, 479, 481, 483, 485, 487, 489, 491, 493, 495, 497, 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COMMODITIES AND AGRICULTURE

Coal promotion body formed

BY MAURICE SAMUELSON

FIFTEEN of the world's biggest coal producing companies, including Britain's National Coal Board and three private South African companies, yesterday launched an international organisation, based in London, similar to those serving the metal industries.

The organisation, the International Coal Development Institute, said at a Press conference at the NCB's London offices, it was dedicated to extending the use of coal as "the most abundant long term fossil fuel source, adaptable to the widest possible energy requirements."

Among the founders are the

French state-owned utility, Charbonnages de France, three companies from Australia, three from the U.S., two from West Germany, and one from British Columbia. It is now seeking new members, in the Communist as well as the Western world.

The Institute, which has been registered as a British company, was publicly launched at a Press conference at the National Coal Board's head office, where it will be based until it finds its own accommodation in the Victoria area.

Its first chairman is to be Dr Karl-Heinz Bunde, former chairman of Ruhrkohle of West Germany who said it had grown

out of conversations he had had with Mr Ian MacGregor, NCB chairman, about 18 months ago. Mr Michael Gilpin, a former marketing executive of the NCB, is its secretary-general.

At the press conference, officials denied that the inclusion of three South African companies was a politically controversial step, insisting that the organisation was strictly non-political, and that they would also like to see the Russians, Poles, Chinese and other Communist coal producers involved.

They also ruled out the possibility that it could become an international cartel, on the

lines of the Organisation of Petroleum Producing Countries. While trying to increase the steel and coal markets, members would "continue to cut each other's throats for a bigger slice of the cake."

The founders are NCB, BP Coal and Shell Coal International (UK); Amstar, Peabody Holding and Mitsui Company (U.S.); Apex Mines, Douglas Colliery and Trans-Natal Coal (South Africa); Austen and Butta and Broken Hill Proprietary (Australia); Ruhrkohle and Saarbergwerke (West Germany); Charbonnages de France (France); and Western Mining (British Columbia, Canada).

Kuala Lumpur reopening is welcomed

ROTTERDAM — The Kuala Lumpur Commodity Exchange (KLCE) appears to have taken sufficient steps to restore confidence and the resumption of palm oil futures trading today is generally welcomed by Rotterdam vegetable oil traders, reports Reuter.

The world's only palm oil futures market has been virtually closed since March 1984 when there was a massive default in contracts representing around 140,000 tonnes.

European traders said at the time of the default that the damage to the KLCE's reputation was probably irreparable. But new rules, including higher paid-up capital requirements from traders, an improved clearing house system and the separation of client accounts, should be enough to get the market back on its feet, they said yesterday.

Traders said there is a genuine need for a palm oil futures market and they expect European-based companies to be prepared to use it along with local producers.

FLORIDA Governor Mr Bob Graham has asked the Federal Government to declare a disaster area in 33 Florida counties because of damage suffered from tree-killing citrus canker disease.

NICKEL producer and consumer nations opened a two-week UN conference yesterday in Geneva on setting up an international nickel study group to monitor the world market, improve data and provide a forum for consultations. A UN spokesman said a key issue was whether the new body would be autonomous or merged with the London-based International Lead and Zinc Study Group.

LONDON METAL EXCHANGE WAREHOUSE STOCKS (Changes during week ending last Friday)	
Aluminium	4,500 to 194,275
Copper	1,725 to 194,275
Lead	2,800 to 43,350
Nickel	714 to 3,328
Tin	4,800 to 37,790
Zinc	7,425 to 39,675
Silver	358,000 to 53,642,000

Shell calls off oil search

SHELL UK has called off its fruitless search for oil and gas less than three miles from Salisbury Cathedral. The hunt for the company's very Rev Sydney Evans, cathedral dean, who feared it threatened the foundations of the 750-year-old building.

Shipment problems in Uganda give extra impetus to coffee

BY RICHARD MOONEY

CONCERN ABOUT Ugandan shipment problems gave extra impetus yesterday to an already firm coffee market, helping to push nearby positions on the London futures market up by nearly £100 a tonne.

Worries about drought damage to the Brazilian crop continued to provide the market's basic strength but yesterday's sudden upsurge was largely due to confirmation of pre-weekend reports that Uganda was having difficulty getting its coffee to the ports and a Government admission

that it might not be able to fulfil its export quota under the International Coffee Agreement (ICA).

A trade report from Nairobi that no coffee shipments had reached Kampala, the Ugandan capital, for three weeks was confirmed over the weekend by the Minister of Co-operatives and Marketing, Mr Evaristo Nyamira.

He said in a radio interview that the capture by the National Resistance Army several weeks ago of Masaka had covered the key route for the movement of

coffee from the western region. The region grows the robusta coffee that accounts for 95 per cent of Uganda's exports and provides virtually its only source of foreign exchange. The Minister also said there had been a loss of coffee deposits by the rebels.

Under the ICA Uganda has an export quota of 2,465,000 bags (50 kilos each) out of a global quota of 58m bags. There are fears that the coffee not reaching Kampala will be smuggled into neighbouring Rwanda for sale outside the ICA quota

Maldives to offer tuna licences

BY LARRY KLINGER

THE REPUBLIC of Maldives, the island chain which spans 90,000 sq m in the Indian Ocean southwest of Sri Lanka, expects to open negotiations next month to license other countries to fish its rich tuna grounds for the first time.

Initial talks will be with France and Spain but the offer to fish the Maldives' 200-mile exclusive zone is open to all countries, President Maumoon Abdul Gayoom said in an interview in London at the weekend. "There have been lots of inquiries," he said.

Net trawling would be prohibited but line techniques

allowed. The Maldives would expect a royalty of around 10 per cent based on the U.S. West Coast landing price. The catch in the first year of any agreement would be limited to a maximum of 40,000 tonnes.

Fishing by foreign fleets would also be restricted to outside 75 miles from the Maldives' shorelines, near to which are the tuna breeding grounds and the areas worked by the fishing-dependent local population.

Tuna resources have not been quantified, but an abundance of mature fish in the 75-100-mile zone has been established through, ironically,

an examination of catches recently confiscated from poachers, President Gayoom said. Studies are in train to specify fishable resources through the UN's Food and Agriculture Organisation (FAO) and the Bay of Bengal Fisheries Commission, which, in addition to the Maldives, comprises India, Sri Lanka and Bangladesh.

The fishing industry accounts for 18 per cent of the Republic's gross domestic product and employs about 40 per cent of the country's labour force. It is the Maldives' second most important source of foreign exchange, behind only tourism.

Bumper U.S. crop will keep peanut prices low

BY RICHARD MOONEY

ANOTHER BUMPER U.S. peanut crop this year will keep world prices at historically low levels, Man Production, the Rotterdam trader, says in its latest market report.

Though the area planted to peanuts in the U.S. is estimated to be slightly down from 1984, excellent weather has kept yields high and Man Production expects the crop to total 2.12m short tons, a level only exceeded by the 1984 record of 2.21m short tons.

But more of the crop is likely to be available to the market, the report predicts, because the "buy back" procedure used to protect American producers from farmers' incomes is less commercially attractive than it was last year. It forecasts 1985/86 U.S. exports at between 330,000 and 390,000 tonnes, compared

with 240,000-250,000 tonnes in 1984/85. With exports from other supplying countries projected to remain at last year's levels, total supply available to the market in 1985/86 is put at between 665,000 and 700,000 tonnes, up from 485,000-545,000 tonnes.

Meanwhile world demand is expected to remain at last year's level of 640,000 tonnes. At around \$800 a tonne, prices are currently at the lowest level for more than 10 years and only about a quarter of the peak level reached in 1980.

Quality tea dearer at London auction

By Our Commodities Staff

THERE WAS a mixed price trend at yesterday's weekly London tea auction. Top grade teas were dearer but lower quality offerings drifted lower. The average price for quality grade tea was 175p a kilo, up from 166p at last week's sale. Medium grade was 5p cheaper at 139p a kilo while low medium grade declined 3p to 109p a kilo.

There were 29,056 packages on offer, including 400 in the offshore section.

The Tea Brokers' Association of London said there was a strong market for Assams with "good liquoring sorts" dearer. The few quality Assams on offer fetched 10p to 50p more than at last week's auction.

LONDON MARKETS

COPPER prices on the London Metal Exchange fell sharply yesterday in thin trading as sentiment reflected nervousness about the tin market crisis. Currency factory and a lower trend in the New York market also played a part in pushing cash higher grade copper down £21 to £563 a tonne. The cash discount against the three months position widened by £1.75 to £7.25 a tonne, suggesting an easing in the concern about the nearby supply situation which boosted values last week. Other base metals prices were also lower with cash lead losing £4.75 to £272.75 a tonne, cash zinc falling £10 to £415.50 a tonne, a new 32-month low, and cash aluminium falling £8 to £671.50 a tonne. Only nickel was a little firmer, reflecting increased manufacturer buying.

LME prices supplied by Amalgamated Metal Trading.

ALUMINIUM	
Unofficial + or -	High/Low
2 per tonne	
Cash	671.50 - 671.50
3 months	694.50 - 694.50
Official closing (am): Cash	672.50
3 months	695.50
Final settlement	697.50
Final settlement	697.50

Official closing (am): Cash 672.50, 3 months 695.50, settlement 697.50. Final settlement 697.50. Turnover: 30,025 tonnes.

Unofficial + or -

2 per tonne

Cash 671.50 - 671.50

3 months 694.50 - 694.50

Official closing (am): Cash 672.50

3 months 695.50

Final settlement 697.50

Final settlement 697.50

Turnover: 30,025 tonnes

Unofficial + or -

2 per tonne

Cash 671.50 - 671.50

3 months 694.50 - 694.50

Official closing (am): Cash 672.50

3 months 695.50

Final settlement 697.50

Final settlement 697.50

Turnover: 30,025 tonnes

Unofficial + or -

2 per tonne

Cash 671.50 - 671.50

3 months 694.50 - 694.50

Official closing (am): Cash 672.50

3 months 695.50

Final settlement 697.50

Final settlement 697.50

Turnover: 30,025 tonnes

Unofficial + or -

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2 per tonne

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3 months 694.50 - 694.50

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3 months 695.50

INDICES

FINANCIAL TIMES
Oct. 28 Oct. 25 Mth ago Year ago
251.12 252.22
(Base July 1982=100)

REUTERS

Oct. 28 Oct. 25 Mth ago Year ago
1710.4 1714.4 1699.4 1902.5
(Base September 1981=100)

DOW JONES

Nov. 28 Oct. 25 Mth ago Year ago
284 285 286 287
(Base December 1981=100)

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U.S. MARKETS

PRECIOUS METALS traded in a featureless fashion on a general lack of economic news although scattered support was noted from the crisis in South Africa and dollar weakness.

Copper and aluminium weakened on a build up in LME stocks along with continuing concerns over the suspension of the revision upward of damage in Brazil along with the lack of shipments from Uganda. Cocos moved sharply lower on reports the Ivory Coast crop appears larger than current expectations.

Cocoa prices were lower on a build up in LME stocks along with continuing concerns over the suspension of the revision upward of damage in Brazil along with the lack of shipments from Uganda. Cocos moved sharply lower on reports the Ivory Coast crop appears larger than current expectations.

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CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

New tactics weaken dollar

Introduction of new tactics by the central banks made the foreign exchange market pause for thought yesterday. After rising sharply in New York on Friday, when the dollar approached DM 2.66, there was a general retreat yesterday, led by the latest moves from the Bank of Japan and the German Bundesbank.

In Tokyo the Japanese central bank maintained the upward pressure on short-term interest rates, leading to demand for the yen and higher yields on Government bonds. The Bank of Japan also sold dollars against the yen, while the Bundesbank intervened in the forward market to push up the dollar. The German central bank, however, did not intervene in spot trading on the open market, or at the Frankfurt futures market, but was reported to have sold the equivalent of about DM 4bn in forward dollar contracts, although market estimates varied quite widely over the figure. Eurodollar rates rose by about 1/8 per cent, helping to offset any tendency for funds to flow out of Frankfurt into Tokyo as a result of upward pressure on Japanese rates.

The dollar fell to DM 2.6430 from DM 2.6530; Ffr 8.0550 from Ffr 8.0850; Sfr 2.1670 from Sfr 2.1720; and Y213.50 from Y214.50.

Eurodollars firmer

Eurodollar contracts finished the day on a firmer note in the London International Financial Futures Exchange yesterday. The December price opened at 91.90 and rose to 91.81. However there was good selling at this level and values were marked down to 91.77. This in turn attracted renewed buying and prices finished at the day's high of 91.82. The firmer trend came despite a rather depressed U.S. bond market as there were suggestions of a possible cut in the U.S. discount rate once again.

U.S. bonds finished above the day's lows but failed to recoup all of the early losses. Values were set below a support level of 75-10 but came back to 75-17 still down from an opening of 75-21.

A sharp increase in Japanese interest rates provided food for thought with dealers suggesting that the Bank of Japan was using the prospect of a higher rate structure to improve the value of the yen against the dollar. Bond prices in Japan continued to lose ground, prompting the authorities to increase the price limit on daily movement to three points from one point and to allow prices to match the downward pace in cash instruments.

Short sterling prices were marked lower on news that the Bank of England was to decrease the amount available through Treasury facilities to commercial banks by not renewing an expiring credit facility. After an opening level of 85.87, the December price touched a low of 85.84 before recovering most of the day's losses to finish at 85.85, still down from Friday's close of 85.88.

Gold prices were also lower soon after the start of trading but recovered on short covering to finish above the day's lows but still well down from Friday.

FUTURES AND OPTIONS

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LONDON

20-YEAR 15% NATIONAL GILT

£50,000 20yds of 100%

Low High Prev

Dec 112.05 112.18 111.21

Mar 112.07 — —

Apr 111.07 — —

Dec 111.07 — —

Estimated volume 7,086 (5,080)

Previous day's open int 4,522 (5,171)

Basic quote (clean cash price of 13% Treasury 2004-08 less equivalent price of near futures contract) -5 to +4 (22nd)

10% NATIONAL SHORT GILT

£100,000 10yds of 100%

Low High Prev

Dec 97.53 97.60 97.41

Mar 97.52 — —

Apr 97.52 — —

Dec 97.52 — —

Estimated volume 1,156 (714)

Previous day's open int 1,713 (1,752)

THREE-MONTH EUROSTERLING

£500,000 points of 100%

Low High Prev

Dec 88.55 88.57 88.54

Mar 88.55 — —

Apr 88.55 — —

Dec 88.55 — —

Estimated volume 229 (198)

Previous day's open int 1,562 (7,688)

FT-100 INDEX

225 per full index point

Low High Prev

Dec 136.15 136.15 136.10

Mar 136.15 — —

Apr 136.15 — —

Dec 136.15 — —

Estimated volume 1,710 (1,682)

Previous day's open int 1,710 (1,682)

THREE-MONTH EURODOLLAR

£1m points of 100%

Low High Prev

Dec 91.82 91.82 91.77

Mar 91.82 — —

Apr 91.82 — —

Dec 91.82 — —

Estimated volume 2,125 (2,818)

Previous day's open int 2,125 (2,143)

LIFE-EURODOLLAR OPTIONS

£1m points of 100%

Low High Prev

Dec 91.82 91.82 91.77

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1985		Stock	Price	+ or -	Div Net	CYR	Gr's
High	Low						
132	581-BM Group 10p	130	+1	132	0	1.5	
130	120 In-stock Int'l	158	-3	160	1.7	7.2	
		201	-1	-	-	-	

BUILDING, TIMBER, ROADS—Cont.										DRAPERY & STORES—Cont.										
No.		Item	Stock	Price	±	Net	Net	Cr	Yr	±	No.	Item		Price	±	Net	Net	Cr	Yr	
1935	1936										1935									
317	123	SPG 100		317	±2	7.37	10.5	12.6	13.4	530	178	Oven Bags		523	±2			±18	4.3	6.6
318	124	SPG 100		318	±2	7.37	10.5	12.6	13.4	531	179	4-Pipe Green 100		524	±2			±18	4.3	6.6
319	125	SPG 100		319	±2	7.37	10.5	12.6	13.4	532	180	4-Pipe Green 100		525	±2			±18	4.3	6.6
320	126	SPG 100		320	±2	7.37	10.5	12.6	13.4	533	181	4-Pipe Green 100		526	±2			±18	4.3	6.6
321	127	SPG 100		321	±2	7.37	10.5	12.6	13.4	534	182	4-Pipe Green 100		527	±2			±18	4.3	6.6
322	128	SPG 100		322	±2	7.37	10.5	12.6	13.4	535	183	4-Pipe Green 100		528	±2			±18	4.3	6.6
323	129	SPG 100		323	±2	7.37	10.5	12.6	13.4	536	184	4-Pipe Green 100		529	±2			±18	4.3	6.6
324	130	SPG 100		324	±2	7.37	10.5	12.6	13.4	537	185	4-Pipe Green 100		530	±2			±18	4.3	6.6
325	131	SPG 100		325	±2	7.37	10.5	12.6	13.4	538	186	4-Pipe Green 100		531	±2			±18	4.3	6.6
326	132	SPG 100		326	±2	7.37	10.5	12.6	13.4	539	187	4-Pipe Green 100		532	±2			±18	4.3	6.6
327	133	SPG 100		327	±2	7.37	10.5	12.6	13.4	540	188	4-Pipe Green 100		533	±2			±18	4.3	6.6
328	134	SPG 100		328	±2	7.37	10.5	12.6	13.4	541	189	4-Pipe Green 100		534	±2			±18	4.3	6.6
329	135	SPG 100		329	±2	7.37	10.5	12.6	13.4	542	190	4-Pipe Green 100		535	±2			±18	4.3	6.6
330	136	SPG 100		330	±2	7.37	10.5	12.6	13.4	543	191	4-Pipe Green 100		536	±2			±18	4.3	6.6
331	137	SPG 100		331	±2	7.37	10.5	12.6	13.4	544	192	4-Pipe Green 100		537	±2			±18	4.3	6.6
332	138	SPG 100		332	±2	7.37	10.5	12.6	13.4	545	193	4-Pipe Green 100		538	±2			±18	4.3	6.6
333	139	SPG 100		333	±2	7.37	10.5	12.6	13.4	546	194	4-Pipe Green 100		539	±2			±18	4.3	6.6
334	140	SPG 100		334	±2	7.37	10.5	12.6	13.4	547	195	4-Pipe Green 100		540	±2			±18	4.3	6.6
335	141	SPG 100		335	±2	7.37	10.5	12.6	13.4	548	196	4-Pipe Green 100		541	±2			±18	4.3	6.6
336	142	SPG 100		336	±2	7.37	10.5	12.6	13.4	549	197	4-Pipe Green 100		542	±2			±18	4	

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78	181	180	125	Callery's Dunes	255	10	147	61	Firewater	113	148	95	60	0
79	182	181	126	Callery's Dunes	255	10	147	61	Firewater	113	148	95	60	0
80	183	182	127	Callery's Dunes	255	10	147	61	Firewater	113	148	95	60	0
81	184	183	128	Callery's Dunes	255	10	147	61	Firewater	113	148	95	60	0
82	185	184	129	Callery's Dunes	255	10	147	61	Firewater	113	148	95	60	0
83	186	185	130	Callery's Dunes	255	10	147	61	Firewater	113	148	95	60	0
84	187	186	131	Callery's Dunes	255	10	147	61	Firewater	113	148	95	60	0
85	188	187	132	Callery's Dunes	255	10	147	61	Firewater	113	148	95	60	0
86	189	188	133	Callery's Dunes	255	10	147	61	Firewater	113	148	95	60	0
87	190	189	134	Callery's Dunes	255	10	147	61	Firewater	113	148	95	60	0
88	191	190	135	Callery's Dunes	255	10	147	61	Firewater	113	148	95	60	0
89	192	191	136	Callery's Dunes	255	10	147	61	Firewater	113	148	95	60	0
90	193	192	137	Callery's Dunes	255	10	147	61	Firewater	113	148	95	60	0
91	194	193	138	Callery's Dunes	255	10	147	61	Firewater	113	148	95	60	0
92	195	194	139	Callery's Dunes	255	10	147	61	Firewater	113	148	95	60	0
93	196	195	140	Callery's Dunes	255	10	147	61	Firewater	113	148	95	60	0
94	197	196	141	Callery's Dunes	255	10	147	61	Firewater	113	148	95	60	0
95	198	197	142	Callery's Dunes	255	10	147	61	Firewater	113	148	95	60	0
96	199	198	143	Callery's Dunes	255	10	147	61	Firewater	113	148	95	60	0
97	200	199	144	Callery's Dunes	255	10	147	61	Firewater	113	148	95	60	0
98	201	200	145	Callery's Dunes	255	10	147	61	Firewater	113	148	95	60	0
99	202	201	146	Callery's Dunes	255	10	147	61	Firewater	113	148	95	60	0
100	203	202	147	Callery's Dunes	255	10	147	61	Firewater	113	148	95	60	0
101	204	203	148	Callery's Dunes	255	10	147	61	Firewater	113	148	95	60	0
102	205	204	149	Callery's Dunes	255	10	147	61	Firewater	113	148	95	60	0
103	206	205	150	Callery's Dunes	255	10	147	61	Firewater	113	148	95	60	0
104	207	206	151	Callery's Dunes	255	10	147	61	Firewater	113	148	95	60	0
105	208	207	152	Callery's Dunes	255	10	147	61	Firewater	113	148	95	60	0
106	209	208	153	Callery's Dunes	255	10	147	61	Firewater	113	148	95	60	0
107	210	209	154	Callery's Dunes	255	10	147	61	Firewater	113	148	95	60	0
108	211	210	155	Callery's Dunes	255	10	147	61	Firewater	113	148	95	60	0
109	212	211	156	Callery's Dunes	255	10	147	61	Firewater	113	148	95	60	0
110	213	212	157	Callery's Dunes	255	10	147	61	Firewater	113	148	95	60	0
111	214	213	158	Callery's Dunes	255	10	147	61	Firewater	113	148	95	60	0

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11.25	0.9	5.7	107.1	26	19	Plutonium Capital	93.0	+1	42.4	42	3.7	7.4	1.60	87	Langston Ind.	138	3.0	1.1	1.7	1.7
				119	95	Advanced Wash. 500	58	-	1.5	2.3	2.2	13.0	26.0	137	Low & Boner 500	202	10.8	0	2.5	1.7
				113	95	Pratt of Wales	56	-2	71.33	2.1	3.4	10.7	132	85	BCU Group	132	13.9	3.1	3.2	14.1
7.75	0	3.5	9.9	119	95	Greenwich Ind. St.	56	-1	71.33	2.1	3.4	10.7	132	85	BCU Group	132	13.9	3.1	3.2	14.1
20.0	1.6	8.5	10.3	1195	101	De 7m Co. Pl. L.L.	113	+2	76	125	8.8		34	22	MY Dent 100	231	10.75	1.3	2.5	12.7
				2619	19	Hyatt Hatch St.	25	-2	100.57	27	3.1	14.7	23.2	14	MCVary Pl. 200	211	8	2	2.6	5.8
30.75	5.3	26	4.0	420	350	Sunny "W" 100	280		122.74	0.9	18.3	120	81	MacIntosh Co.	125	102.16	3.1	2.5	12.7	

INDUSTRIAL: Tuesday October 29 1985

1948				WOODS KIALS				Continued				LEISURE			
High	Low	Stock	Price	High	Low	Stock	Price	High	Low	Stock	Price	High	Low	Stock	Price
45	34	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
46	35	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
47	36	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
48	37	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
49	38	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
50	39	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
51	40	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
52	41	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
53	42	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
54	43	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
55	44	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
56	45	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
57	46	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
58	47	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
59	48	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
60	49	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
61	50	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
62	51	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
63	52	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
64	53	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
65	54	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
66	55	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
67	56	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
68	57	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
69	58	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
70	59	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
71	60	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
72	61	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
73	62	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
74	63	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
75	64	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
76	65	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
77	66	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
78	67	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
79	68	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
80	69	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
81	70	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
82	71	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
83	72	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
84	73	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
85	74	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
86	75	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
87	76	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
88	77	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
89	78	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
90	79	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
91	80	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
92	81	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
93	82	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
94	83	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
95	84	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
96	85	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
97	86	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
98	87	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
99	88	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				
100	89	Madison (P. W. 20p)	444	71.7	25	58	90	230	177	Low	Stock				

1985

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NOTES

[illegible]

SIGNAL 2: IRISH SETTING

UNITED STATES AND IRISH STOCKS		
Listed in the United States and Ireland, the latter being the only one in the world.		
United States	Amco	213
700	CPI Index	213
54	Carroll Inc.	148
225	Debra Inc.	85
715	Hall & H.J.	59
85-2	Hester Higgs	22
	Irish Ropes	45
130.5	United	125
535.5	For United I.W. & R.I. See Page	
130.5		

[illegible]

New York • London • Paris • Geneva • Zurich • Hong Kong • Tokyo

Continued on Page 41

AMEX COMPOSITE PRICES

[illegible]

Continued on Page 39

Continued on Page 20

FINANCIAL TIMES

WORLD STOCK MARKETS

WALL STREET

Cautious response to results

THE U.S. Treasury's decision to press ahead with its \$17.75bn refunding this week, despite the impasse over the federal debt ceiling and concern over Japanese interest rates, drove U.S. bond prices down yesterday, writes Terry Byland in New York.

Long-dated federal bonds extended early losses following the Treasury announcement to show net losses of more than half a point.

At 3pm, the Dow Jones industrial average was down 1.57 at 1,354.95.

The rise in short-term rates in Japan lessens the attraction of U.S. federal bonds for Japanese investors, and could reduce their presence at this week's auctions of U.S. Treasury securities, which begin today with the sale of \$6.75bn three-year notes.

Japanese stocks rose sharply as the stronger yen opened up arbitrage opportunities. Matsushita gained 1 1/2 to 357 1/2, Hitachi 1 1/2 to 334 1/2 and Sony 3/4 to 318 1/2.

The stock market was in a more cautious mood in the wake of disappointing results from the Detroit carmakers and from Texas Instruments. Market indices were helped by improvements in both IBM and General Motors, but the over-

all picture was mixed, with little sign of upward momentum.

Texas Instruments fell 3/4 to \$90 1/4 on Friday's disclosure of an \$82.8m loss for the third quarter, as well as workforce layoffs. Motorola shed 3/4 to \$31 1/4 and other microchip manufacturers remained unsettled by the latest industry trends.

However, Wall Street responded favourably to the trading report from Control Data, which added \$1 to \$18 1/4 despite the substantial loss and write-offs for the quarter.

Honeywell, which laid off a small number of workers, was unchanged at \$60. IBM added 3/4 to \$128 1/4, Burroughs 3/4 to \$55 1/4 and NCR 3/4 to \$34.

Good results from Chrysler left the stock 3/4 higher at \$38 1/4, and the firm tone spread through the sector. General Motors added 3/4 to \$65 1/4 and Ford 3/4 to \$45 1/4.

Stock in U.S. Steel slipped 3/4 to \$27 1/4 in heavy turnover as Wall Street awaited confirmation that the steelmaker would merge with Texas Oil & Gas in a deal worth around \$5bn.

There was also heavy turnover in Texas O&G, with the stock slipping 3/4 to \$18 1/4.

The major oil industry stocks looked firmer as results were digested. Atlantic Richfield added 3/4 to \$6 1/4 after the trading statement. Standard Oil of Ohio dipped 3/4 to \$51 1/4, disappointed at the absence of any move by British Petroleum to buy in the outstanding equity.

Utility stocks shed early gains as bond market yields moved higher. Consolidated Edison, however, edged up 3/4 to \$35 1/4, spurred on by a huge block trade.

There was widespread profit-taking among airline stocks, although losses were not large. American dipped 3/4 to \$38 1/4, and United 5/4 to \$45 1/4. With bid speculation reduced, Pan Am eased 3/4 to \$7 1/4.

The takeover spotlight was turned off the food and consumer sectors. Beatrice Foods at \$44 edged up 3/4 in brisk trading. Quaker Oats at \$58 1/4 eased 3/4. SCM, unchanged at \$73, was still awaiting settlement of legal questions posed by rival offers from Unilever and the Merrill Lynch-led management group.

R. H. Macy eased 3/4 to \$62 1/4, as the market waited for the management group to formalise its proposed bid for the shares. Federated Department Stores, a recent bid hope, fell 1 1/4 to \$83 1/4.

In the credit markets, short-term rates collided behind a Federal Funds rate once more safely below 8 per cent. The Fed drained liquidity with three-day matched sales.

Bond prices continued to sag as buyers backed away in preparation for the Treasury auctions.

LONDON

Weak gilts mar equity enthusiasm

WEAKNESS in gilts, sparked by fears that other members of the Group of Five would follow Japan and raise short-term interest rates, marred all active equity trading session in London yesterday.

Sharp falls affected all gilts with long-dated issues losing a full point and shorts down by up to 1/2.

Meanwhile, equity turnover increased with demand for second-line industrial issues and renewed takeover enthusiasm. The FT industrial share index slipped 2 1/2 to 1048.8.

Guinness Peat, up 2p to 71p, launched a contested bid for Britannia Arrow, which added 9p to 140p. Ward White firmed 1 1/2p to 31 1/2p on its counter-bid for Owen Owen, up 28p to 52 1/2p.

Chief price changes, Page 39; Details, Page 38; Share information service, Pages 36-37.

SINGAPORE

DISAPPOINTMENT at the lack of new incentives for business in last week's Malaysian budget sparked profit-taking that left Singapore lower in quiet trading.

The Straits Times Industrial Index lost 12 1/2 to close at 772.70 in quiet trading. Turnover slipped from Friday's 15.8m to 10.9m.

Smaller, speculative issues were the most active including G.L. Holdings, 8 cents up to \$2.18, Magnum, down 18 cents to \$4.18 and Hales, down 14 cents to \$3.52.

The downturn left many other industrial shares lower, including Cold Storage, which was 8 cents down at \$83.10, Singapore Press, which shed 10 cents to \$88.40 and Sime Darby, down 7 cents to \$81.80.

AUSTRALIA

BHP, which has led Sydney higher for nearly two weeks, depressed the market after ex-dividend trading in the share brought its price down 28 cents to A\$8.82.

The All Ordinaries index closed 6.8 lower at 1,045.8.

Profit-taking also hit other industrials which have reached peaks during the recent record trading sessions. Lend Lease lost 24 cents to A\$6.60, News Corp was 10 cents down to A\$8.70 and Elders IXL lost 8 cents to A\$3.86.

Lacklustre world metal prices left minings down.

HONG KONG

THE FIRST decline for two weeks took place in Hong Kong as institutions moved in to take profits.

Dealers blamed the downturn on an expected technical correction. The Hang Seng index fell 20.48 to close at 1,851.25.

Utilities were generally weak with China Light down 4 cents to HK\$18.70, and Hongkong and China Gas 10 cents lower at HK\$11.20.

Financials followed the trend. Hongkong and Shanghai Bank lost 5 cents to HK\$7.40, Bank East Asia was down 30 cents to HK\$22.80 and Hang Seng Bank shed 25 cents to HK\$45.75.

SOUTH AFRICA

A LACK of fresh incentives left Johannesburg mixed in quiet trading.

Among golds Buffelsfontein and Driefontein were both 25 cents lower at R78.50 and R49.25 respectively, while Gold Fields SA was unchanged at R35.

Mining financial Anglo American added 25 cents to R34.25, diamond share De Beers was 10 cents higher at R14.15 while Rustenburg Platinum was steady at R23.75.

CANADA

SOME confidence returned to Toronto which traded slightly higher after Friday's losses.

Among actives Royal Bank of Canada traded 3 1/4 higher to C\$30 1/4, John Labatt added 3 1/4 to C\$29 1/4, Dominion Textile was C\$5 up to C\$12 1/4 and Sears Canada firmed C\$5 to C\$10 1/4. Gulf Canada shed 3 1/4 to C\$20.

In Montreal industrials were marginally down, banks traded higher and utilities were largely unchanged.

TOKYO

Blue-chip electricals lead rally

A SHARP rally, led by Sony, boosted Tokyo yesterday after the declines of the two previous sessions, writes Shigeo Nishiwaki of Jiji Press.

The Nikkei market average rose 104.41 to 12,937.04, recouping much of the 136.45 loss of the previous two trading days. Only 245.2m shares changed hands, however, against 366.6m on Friday, as many investors stayed away from the market. Advances outpaced declines 479 to 280, with 142 issues unchanged.

Bond prices continued to decline as the Bank of Japan guided domestic interest rates higher to bolster the yen against the dollar. Bill and call rates soared on Friday to their highest levels since January 1983, discouraging investors in bonds who had been expecting further interest rate falls at home and abroad.

Stock investors adopted a cautious attitude at the beginning of yesterday's trading. But as Sony exceeded the ¥4,000 mark, hiotechnology, blue-chip electrical and precision instrument stocks rose sharply, boosting the Nikkei index. Sony closed ¥180 up at ¥4,050.

Because of falling semiconductor demand and Japan-U.S. trade friction, however, most investors were not actively seeking blue chips. A leading brokerage said that investors who had lost on falls in large-capital and domestic demand-related stocks sold their holdings and bought volatile blue chips and biotechnologies to take capital gains.

Blue chips were among the day's most active stocks. NEC, with 8.35m shares traded, rose ¥80 from Saturday to ¥1,200. Ricoh added ¥30 to ¥1,080 and Hitachi ¥15 to ¥740. Minolta gained ¥27 to ¥982. Shin-Etsu Chemical closed ¥35 higher at ¥815 and Konishiroku was ¥17 higher at ¥741.

Fujitsu, which rose ¥80 at one stage, came under selling pressure after a mid-term profit decline was announced. It closed ¥1 lower at ¥999.

Among biotechnology stocks, Mochida Pharmaceutical rose ¥190 to ¥3,750, Daiinippon Pharmaceutical ¥30 to ¥3,010 and Yamanouchi Pharmaceutical ¥30 to ¥3,350.

The bond market did not recover from Friday's sharp interest rate increase.

The yield on the benchmark 8.8 per cent government bond maturing in December 1994 rose from 8.900 per cent on Saturday to 8.830 per cent, up 1.070 per cent from last Thursday.

On the bond futures market, the Tokyo Stock Exchange widened the limit of daily fluctuations from ¥1 to ¥3. This helped conclusion of the first contracts for delivery in December, due in three days, at ¥98.63, down ¥3. However, contracts totalling only ¥51bn, with ¥850bn worth of sell orders failing to find buy orders.

EUROPE

Profit-taking wave proves a dampener

AFTER last week's widespread demand, a wave of profit-taking swept across Europe yesterday, leaving prices lower.

Brussels fell steeply as the technical reaction took hold and the Brussels stock index lost 51.84 to 2,716.28 on declines in most sectors. The movement, however, had been anticipated following the market's rapid appreciation since the October 13 general election.

Yesterday's falls were prompted by price declines in high-volume shares. Financial holding company Group Bruxelles Lambert shed Bfr 70 to Bfr 2,450 and market leader Petrofina lost Bfr 170 to end at Bfr 6,410.

Utilities and chemical issues fell with Intercom closing down Bfr 115 at Bfr 2,635 and Solvay giving up Bfr 220 to Bfr 5,690.

The process of consolidation begun in Frankfurt on Friday continued yesterday and prices ended mostly lower. A late recovery brought stocks up from their lows of the day, however.

Speculative stocks were the most active with ABG benefiting from takeover consideration by Daimler Benz to rise DM 15.50 to DM 257.00. Continued market rumours that machinery maker Linde was preparing to buy part of Deutsche Babcock left the latter DM 14.00 firmer at DM 215. The rumours, however, have been denied by both companies.

After surging DM 50 last Thursday on reports that it had developed a substance to kill the AIDS virus, Degussa fell DM 11 on profit-taking to stand at DM 485. Other chemicals ended lower with BASF DM 3 off at DM 267, Bayer DM 2.90 at DM 257 and Hoechst DM 1.70 at DM 256.80.

A weaker bond market and stronger local interest rates drove banks lower led by Deutsche Bank with a DM 4 drop to DM 675.50. Dresdner shed DM 2 to DM 536 and Commerzbank DM 1 to DM 260.

Bonds dropped by as much as DM 1.50 as foreign investors sold D-Mark issues on the firm undertone of the dollar. The Bundesbank bought a sizeable DM 71.9m worth of domestic bonds after purchases totalling DM 10.3m on Friday.

Zurich entered a period of cooling off after last week's rallies and prices declined on low volume as investors took to the sidelines.

Shares of retailer Uesgo, a possible takeover candidate, were temporarily suspended and closed at SwFr 685 against SwFr 685 on Friday.

In transport issues, Swissair moved against the trend to end SwFr 23 up at SwFr 1,565. Despite a favourable outlook, Swiss Volksbank registered a SwFr 70 fall to SwFr 2,160.

Bonds finished steady in light volume with many issues unchanged and most others posting small gains or declines in the absence of any fresh factors.

Late profit-taking in Amsterdam wiped out some of the gains recorded early in the session.

The ANP-CBS general index, calculated at mid-session, did not reflect the later declines and touched a record 224.7, up 0.7 from Friday's previous record.

Unilever was the only market leader to advance at the close, gaining Fl 2.80 to Fl 341.50. Among other blue chips, AKZO eased 80 cents to Fl 128.20, Philips 10 cents to Fl 49.30, Royal Dutch 90 cents to Fl 187.60, and KLM Fl 2.60 to Fl 52.30.

In the banking sector, ABN rose Fl 2 to Fl 527 and Amro gained 90 cents to Fl 91.10 while NMB shaded 50 cents to Fl 203.

Bond prices fell by 30 to 80 cents in slow trading.

Paris rose for the fourth consecutive session as foreign buying interest pushed prices higher.

Thomson-CSF led the electrical sector upwards, with a gain of Ffr 18 to Ffr 580. The rise followed Friday's news that the group had earned Ffr 336m against a year-ago loss of Ffr 124m. Moulinex was also higher at Ffr 57, up Ffr 2.60.

Continued strong buying interest after last week's cut in interest rates left Stockholm mixed to higher with Electrolux, up SKr 1 to SKr 187, topping the actives.

Ericsson added SKr 3 to SKr 207 while Volvo gained SKr 2 to SKr 237.

Milan ended firmer as equity mutual funds appeared to ignore Italy's continuing government crisis and remained steady buyers.

Madrid fell in light trading.

KEY MARKET MONITORS



STOCK MARKET INDICES				
	Oct 28	Previous	Year ago	
NEW YORK				
DJ Industrials	1,354.95	1,355.52	1,204.95	
DJ Transport	644.78	649.58	522.98	
DJ Utilities	159.26	159.16	141.57	
S&P Composite	248.72	248.52	165.29	

LONDON				
	Oct 28	Previous	Year ago	
FT Ord	1,048.6	1,050.8	878.2	
FT-SE 100	1,347.8	1,347.6	1,130.5	
FT-A All-shr	658.12	658.66	536.30	
FT-A 500	719.09	717.66	583.86	
FT Gold mines	252.3	257.1	519.2	
FT-A Long gilt	10.39	10.25	10.43	

TOKYO				
	Oct 28	Previous	Year ago	
Nikkei	12,937.04	12,854.99	11,555.0	
Tokyo SE	1,020.30	1,016.34	850.18	

AUSTRALIA				
	Oct 28	Previous	Year ago	
All Ord.	1,045.6	1,052.2	750.6	
Metals & Mins.	524.6	528.5	441.1	

AUSTRIA				
	Oct 28	Previous	Year ago	
Credit Aktien	98.03	98.18	57.00	

BELGIUM				
	Oct 28	Previous	Year ago	
Belgian SE	2,716.28	2,788.12	-	

CANADA				
	Oct 28	Previous	Year ago	
Toronto				
Metals & Mins.	1,756.30	1,746.29	1,940.00	
Composite	2,635.20	2,632.80	2,365.20	
Montreal				
Portfolio	126.39	128.06	116.26	

DENMARK				
	Oct 28	Previous	Year ago	
SE	n/a	238.25	166.79	

FRANCE				
	Oct 28	Previous	Year ago	
CAC Gen	218.4	217.2	183.0	
Ind. Tendance	122.8	122.2	98.4	

WEST GERMANY				
	Oct 28	Previous	Year ago	
FAZ-Aktien	574.90	577.21	376.38	
Commerzbank	224.7	225.2	107.35	

HONG KONG				
	Oct 28	Previous	Year ago	
Hang Seng	1,851.25	1,871.73	1,068.84	

ITALY				
	Oct 28	Previous	Year ago	
Banca Com.	404.09	398.14	210.34	

NETHERLANDS				
	Oct 28	Previous	Year ago	
ANP-CBS Gen	224.7	224.0	180.8	
ANP-CBS Ind	204.5	203.2	143.2	

NORWAY				
	Oct 28	Previous	Year ago	
Ose SE	381.23	381.38	267.08	

SINGAPORE				
	Oct 28	Previous	Year ago	
Straits Times	772.70	785.02	853.48	

SOUTH AFRICA				
	Oct 28	Previous	Year ago	
JSE Golds	-	1,094.8	1,022.3	
JSE Industrials	-	950.5	689.3	

SPAIN				
	Oct 28	Previous	Year ago	
Madrid SE	125.82	125.87	102.92	

SWEDEN				
	Oct 28	Previous	Year ago	
J & P	1,448.30	1,499.00	1,462.78	

SWITZERLAND				
	Oct 28	Previous	Year ago	
Swiss Bank Ind	501.2	508.1	380.4	

WORLD				
	Oct 28	Previous	Year ago	
Capital Int'l	228.5	229.2	185.4	

COMMODITIES				
	Oct 28	Previous	Year ago	
(London)				
Silver (spot fixing)	432.25p	432.40p	-	
Copper (cash)	\$98.00	\$98.00	-	
Coffee (Nov)	\$1,630.00	\$1,749.00	-	
Oil (spot Arabian Light)	\$27.75	\$27.75	-	

GOLD (per ounce)	
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